SaskEnergy
2005 ANNUAL REPORT

SaskEnergy will be Canada's leading energy company by anticipating our customers' changing needs and providing innovative and responsive solutions.

SaskEnergy will provide natural gas and related services to fulfill the needs of our customers and the natural gas industry while enhancing Saskatchewan's competitive position.

EMPLOYEE DEVELOPMENT
We have a commitment to continuous employee development.

INDIVIDUAL CONTRIBUTION
We enable individuals to be responsible and accountable for providing excellent customer service.

TRUST AND TEAMWORK
We have relationships that are based on trust, co-operation and teamwork.

SAFETY, HEALTH AND ENVIRONMENT
We provide a safe, healthy workplace and high environmental and public standards.

UNION EQUALITY
We recognize and respect our partnership with the union.

PARTNERSHIPS
We will develop partnerships that will enhance the economic well-being of Saskatchewan.

COMMUNITY INVOLVEMENT
We encourage corporate and individual involvement in community activities.

RECOGNITION
We recognize the contribution of individuals and teams.

RESPECT
We respect one another and the importance of family.

CUSTOMERS
We are committed to providing consumers and gas producers with reliable, cost-effective service.

OPEN COMMUNICATION
We have open communication, open dialogue and participatory management.

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106-05295/

ON JANUARY 15 – 2005 PEAK DAY – 1.38 PETAJOULES (PJ) OF NATURAL GAS ARE TRANSPORTED THROUGH THE TRANSGAS SYSTEM TO BOTH IN-SASKATCHEWAN AND OUT-OF-PROVINCE CUSTOMERS. THIS IS ROUGHLY EQUIVALENT TO THE AMOUNT OF ENERGY REQUIRED TO HEAT 11,000 HOMES FOR AN ENTIRE YEAR.

AS PART OF ITS ONGOING EFFORTS TO PROVIDE THE SAFEST POSSIBLE WORKPLACE FOR ITS EMPLOYEES, THE CORPORATION PARTICIPATES IN SAFETY STAND-DOWN WEEK FOR THE THIRD CONSECUTIVE YEAR. DURING THE WEEK, EXECUTIVE MEMBERS VISIT DIFFERENT WORK LOCATIONS ACROSS THE PROVINCE TO DISCUSS WORKPLACE SAFETY WITH EMPLOYEES.

EXPRESSADDRESS, THE FREE ON-LINE ADDRESS-CHANGE SERVICE SASKENERGY HAS HELPED DEVELOP AND PROMOTE, EXPANDS WITH THE ADDITION OF TWO NEW PARTICIPATING ORGANIZATIONS: SASKATCHEWAN HEALTH AND SECURTEK, SASKTEL'S HOME SECURITY SERVICE.

2005 OPERATIONS HIGHLIGHTS

THE CORPORATION APPROVES AN UPDATED CORPORATE CODE OF BUSINESS CONDUCT AND ETHICS POLICY TO GUIDE EMPLOYEES IN PERFORMING THEIR DUTIES AT SASKENERGY AND TRANSGAS.

AS THE SPRING CONSTRUCTION SEASON GETS UNDERWAY, THE CORPORATION REMINDS CONTRACTORS AND HOMEOWNERS ACROSS SASKATCHEWAN THAT FOR SAFETY REASONS, THEY SHOULD NOTIFY *SASK 1ST CALL* TO HAVE UNDERGROUND LINES MARKED PRIOR TO BEGINNING ANY EXCAVATION.

IN MEMORY OF LONGTIME EMPLOYEE GERALD OXBY, TRANSGAS EMPLOYEES PLANT MORE THAN 500 TREES ON SPRUCE ISLAND IN REGINA'S WASCANA LAKE. THE TREES COME FROM A TREE NURSERY GERALD DEVELOPED AT THE REGINA STORAGE CAVERNS IN 1994.

THE CORPORATION REACHES A NEW COLLECTIVE BARGAINING AGREEMENT WITH THE COMMUNICATIONS, ENERGY & PAPERWORKERS (CEP) UNION, LOCAL 649. THE AGREEMENT POSITIONS SASKENERGY AND TRANSGAS FOR THE FUTURE BY HELPING ENSURE THE RECRUITMENT AND RETENTION OF A SKILLED AND VALUED WORKFORCE.

THE CORPORATION LAUNCHES THE SASKENERGY COMMERCIAL NETWORK, A VOLUNTARY ALLIANCE OF INDEPENDENT RETAILERS AND CONTRACTORS PROVIDING NATURAL GAS RELATED SERVICES TO SASKATCHEWAN COMMERCIAL CUSTOMERS.

AS A RESULT OF RECORD HIGH NATURAL GAS PRICES ON THE OPEN MARKET, SASKENERGY APPLIES TO THE SASKATCHEWAN RATE REVIEW PANEL FOR A COMMODITY RATE INCREASE TO BE EFFECTIVE NOVEMBER 1, 2005. THE RATE APPLICATION IS SUBSEQUENTLY REVISED TO REFLECT FURTHER PRICE INCREASES FOLLOWING HURRICANES KATRINA AND RITA, WHICH TEMPORARILY SHUT DOWN NATURAL GAS PRODUCTION IN THE GULF COAST REGION.

2005 OPERATION HIGHLIGHTS

CONSTRUCTION IS COMPLETED IN MOOSE JAW ON A NEW NATURAL GAS TOWN BORDER REGULATING STATION TO REPLACE THE OLD ONE AND PROVIDE FOR FUTURE CUSTOMER GROWTH. ALSO IN MOOSE JAW, SASKENERGY AND TRANSGAS EMPLOYEES, TOGETHER WITH VOLUNTEERS FROM SEVERAL COMMUNITY ORGANIZATIONS, HELP 100 LOW-INCOME FAMILIES IMPROVE THE ENERGY EFFICIENCY OF THEIR HOMES THROUGH THE SASKENERGY SHARE THE WARMTH HOME ENERGY EFFICIENCY PROJECT.

THE PROVINCIAL GOVERNMENT ANNOUNCES THE SASKATCHEWAN ENERGY SHARE, AN INITIATIVE WHICH TEMPORARILY REDUCES SASKENERGY'S COMMODITY RATE TO $7.95/GIGAJOULE (GJ) FROM THE PROPOSED RATE OF $10.88/GJ AND EXPANDS ENERGY-EFFICIENCY PROGRAMS TO HELP CUSTOMERS COPE WITH RISING ENERGY COSTS.

ON DECEMBER 22, RECEIPTS OF SASKATCHEWAN-PRODUCED NATURAL GAS TRANSPORTED ONTO THE TRANSGAS SYSTEM TOTAL 785 TERAJOULES/DAY (TJ/D), SURPASSING THE PREVIOUS RECORD OF 772 TJ/D SET IN APRIL, 2004. HIGH VOLUMES OF NATURAL GAS TRANSPORTED ON THE SYSTEM THROUGHOUT THE YEAR ALLOW TRANSGAS TO REDUCE TRANSPORTATION AND STORAGE RATES FOR SASKENERGY AND OTHER CUSTOMERS BY AN AVERAGE OF 2.6% EFFECTIVE JANUARY 1, 2006.

CONSOLIDATED FINANCIAL INFORMATION AND OPERATING STATISTICS

CONSOLIDATED FINANCIAL INFORMATION	2005	2004	2003	2002	2001
($ MILLIONS)					
Delivery revenue	156	162	165	165	155
Transportation and storage revenue	88	88	81	68	69
Other	77	67	67	42	65
Total revenue	321	317	313	275	289
Operating expenses	256	247	245	243	243
Net earnings from operations	65	70	68	32	46
Gain (loss) on commodity sales	12	38	(27)	(25)	(61)
Net earnings	77	108	41	7	(15)
Dividend	29	70	27	4	
Total assets	1,371	1,286	1,235	1,211	1,264
Property, plant and equipment – net	947	949	941	922	921
Capital expenditures	59	68	79	57	58

OPERATING STATISTICS	2005	2004	2003	2002	2001
(PETAJOULES)					
Distribution volumes					
Residential	30	32	33	34	29
Commercial	28	29	30	30	28
Farm	4	4	4	4	4
Industrial	66	69	70	59	55
	128	134	137	127	116
(PETAJOULES)					
Transmission volumes					
Domestic	201	211	208	199	187
Export	162	147	146	144	135
	363	358	354	343	322
Number of customers					
Distribution	329,240	327,586	325,504	323,721	321,612
Transmission	121	108	115	131	140

FIVE-YEAR OPERATING SUMMARY – DISTRIBUTION

	2005	2004	2003	2002	2001
Sales in million cubic metres	3,411	3,607	3,696	3,419	3,151
Residential annual average usage (cubic metres)	3,060	3,287	3,420	3,476	3,173
Degree days	5,577	5,844	5,817	5,967	5,390

PIPELINE

(MILLIONS OF GJ)

Distribution Utility					
Local Distribution Company	65,872	65,712	65,559	65,371	65,123
Swan Valley Gas Corporation	120	120	120	120	120
	65,992	65,832	65,679	65,491	65,243

Retail, industrial and gas marketing

A unit measuring the extent to which the temperature falls below 18° Celsius. (In a normal year, the degree days are 5,703.)

FIVE-YEAR OPERATING SUMMARY – TRANSMISSION

PIPELINE (KILOMETRES)	2005	2004	2003	2002	2001
TransGas Limited					
Transmission	13,482	13,412	13,356	13,216	13,097
Gathering	188	186	183	279	276
Many Islands Pipe Lines (Canada) Limited	435	435	435	435	435
Bayhurst Gas Limited	92	92	92		
	14,197	14,127	14,072	13,930	13,808
COMPRESSOR STATIONS					
TransGas Limited	23	22	22	22	22
Many Islands Pipe Lines (Canada) Limited	1	1	1	1	1
Bayhurst Gas Limited	3	3	3		
	27	26	26	23	23
COMPRESSION HORSEPOWER					
TransGas Limited	88,325	93,550	93,550	100,620	100,620
Many Islands Pipe Lines (Canada) Limited	–	–	4,000	4,000	4,000
Bayhurst Gas Limited	6,300	6,300	6,300		
	94,625	99,850	103,850	104,620	104,620
Peak day natural gas flows (Petajoules)	1.38	1.48	1.46	1.30	1.30
Date of peak day flow	Jan. 15	Jan. 27	Jan. 22	Jan. 28	Feb. 26
Storage cavern sites	8	7	7	7	7
Storage caverns	24	22	23	23	23
Storage field sites	2	2	2	3	3
Producing field sites	1	1	1		

Letter of Transmittal

March 31, 2006

The Honourable Dr. Lynda M. Haverstock
Lieutenant Governor
Province of Saskatchewan

May it please Your Honour:

I respectfully submit the Annual Report of SaskEnergy Incorporated for the year ended December 31, 2005, in accordance with *The SaskEnergy Act*. The Financial Statements are in the form approved by the Treasury Board, and have been reported on by the Corporation's auditors.

Andrew Thomson
Minister Responsible for SaskEnergy

Corporate Profile

SaskEnergy Incorporated (also referred to as SaskEnergy or the Corporation) is a Saskatchewan Crown corporation governed by *The SaskEnergy Act*. It is a designated subsidiary of Crown Investments Corporation of Saskatchewan (CIC). CIC is also a Crown corporation and effectively operates as the Province's holding company for commercial Crown corporations (such as SaskEnergy, SaskPower and SaskTel) and various commercial investments.

SaskEnergy's corporate structure consists of SaskEnergy (the Crown corporation) plus seven wholly owned subsidiaries as follows:

SaskEnergy's two major business units are the distribution utility (also referred to as the Local Distribution Company or LDC) and the transmission utility (TransGas Limited). The LDC has the exclusive legislated franchise to own and operate the natural gas distribution utility within the Province of Saskatchewan. The Provincial Cabinet regulates the LDC's delivery and commodity rates.

TransGas Limited
Many Islands Pipe Lines (Canada) Limited
Bayhurst Gas Limited
SaskEnergy International Incorporated
Swan Valley Gas Corporation
Saskatchewan First Call Corporation
SaskEnergy Nova Scotia Holdings Ltd.
SaskEnergy Chilean Holdings I Ltd.
SaskEnergy Chilean Holdings II Ltd.
SaskEnergy Mexican Holdings Ltd.
SaskEnergy Chilean Holdings Limitada

TransGas Limited (TransGas) has the exclusive legislated franchise to own and operate the natural gas transmission business within the Province of Saskatchewan. It also owns and operates a non regulated natural gas storage business that is integral to the transmission pipeline system. TransGas' transmission rates are subject to Provincial Cabinet approval. TransGas has a Customer Dialogue process where business, operational and rate matters are openly discussed with a representative group of customers.

Many Islands Pipe Lines (Canada) Limited (MIPL) owns 11 transmission pipeline interconnections to Alberta, two into the United States, and one into Manitoba. The National Energy Board regulates the business activities of MIPL.

Bayhurst Gas Limited (Bayhurst) owns, produces and sells natural gas from its storage-related assets in the Beacon Hill area of Saskatchewan. Bayhurst also owns a gross overriding royalty on approximately 450 properties in Saskatchewan and Alberta.

SaskEnergy International Incorporated (SEII) was created in 1996 to enhance SaskEnergy's revenue streams by investing in new growth opportunities. SEII's primary focus is Latin America, one of the fastest growing natural gas markets in the world. SEII holds a 30% equity interest in Gas Sur S.A., a natural gas distribution company in Chile, as well as a 40.1% equity interest in Igasamex USA Ltd., which owns a natural gas transmission company in Mexico.

Swan Valley Gas Corporation (SVGC), formed in 2000, owns a natural gas distribution utility in the Swan Valley area of western Manitoba. The Manitoba Public Utilities Board regulates SVGC.

Saskatchewan First Call Corporation (*Sask 1st Call*) was established primarily for safety reasons to maintain a database of oil, gas and other underground infrastructures. In 2003, *Sask 1st Call* began providing a service whereby landowners and other stakeholders could contact the company to screen the location of pipeline facilities. In 2004, *Sask 1st Call* began extending its service to non-pipeline-related entities. *Sask 1st Call* is intended to recover all operational costs and operate on a break even basis.

Through its wholly owned subsidiary, SaskEnergy Nova Scotia Holdings Ltd., SaskEnergy purchased a 50.1% equity interest in Heritage Gas Limited (Heritage Gas) in 2002. In 2003, Heritage Gas was awarded the natural gas distribution franchise to deliver natural gas service to six counties in Nova Scotia, and in 2004, the company began serving its first residential customers. Heritage Gas is regulated by the Nova Scotia Utility and Review Board.

Board of Directors and Executive Committee

Standing left to right: MARNI DORMUTH, MICHAEL CHORLTON, JEAN WEIMER, NADINE KRENOSKY, RALPH HESJE, ELDON LINDGREN

Seated left to right: HEATHER HEAVIN, DONALD CHING, MERVYN SIMON, GEORGE LAFOND, FLORENCE NORMAN

DOUG KELLN
President and Chief Executive Officer

LARRY BRAUN
President, Communications Energy & Paperworkers (CEP) Union, Local 649

DAVID EASTON
President, SaskEnergy, [illegible] until November 10, 2005

KEN FROM
Senior Vice President, Gas Supply & [illegible] Development

MARK GUILLET
Vice President, General Counsel & Corporate Secretary

ROBERT HAYNES
Vice President, Human Resources

COLLEEN HUBER
Vice President, Corporate Support

GREG MRAZEK
Vice President, Finance and Chief Financial Officer

RON POBIELSKI
Executive Director, Corporate Affairs

DARYL POSEHN
Senior Vice President, Taxation Limited

DEAN REEVE
Executive Vice President, SaskEnergy

Chair's Message

On behalf of the Board of the Directors, I am pleased to comment on our Corporate results for 2005 and on our ongoing stewardship of the Corporation.

Throughout this annual report, SaskEnergy and TransGas record strong operating and financial results. If you look at the Operating Highlights on pages 3-4, for example, you will see how well the Corporation performed in 2005. These positive results are a credit to the expertise and dedication of our people during a year of new challenges – such as the very high (and unexpected) natural gas price environment.

The Board is fully dedicated to good stewardship of the Corporation. During 2005, the Board and its committees devoted significant energy and time toward achieving best practice in Corporate governance, policies and processes. We are fortunate to have the full assistance of our management team in achieving these results.

Also in 2005, the Board and management continued to focus on strategic planning for the future. We are very pleased with our employee participation and input into the planning process, and are confident that this planning will develop future opportunities for our Corporation.

In 2005, the Board, management and employees maintained a strong focus on safety. We strive for the highest standards of safety for important reasons: our customers must receive safe, reliable service and our employees who come to the job in the morning must go home without incident in the evening.

Success into the future means we must proactively maintain our workforce. We must also use new technologies to serve our customers. The Board has confidence in the Corporation's people and believes they will be central to our future success.

We appreciate the contributions of all SaskEnergy/TransGas employees during 2005, and thank our natural gas customers on whose business the Corporation depends. Our success grows with your success.

Sincerely,

Mervyn Simm
Chair, Board of Directors

President's Message

2005 was a strong year for SaskEnergy and TransGas from an operational, financial and customer service perspective. Through strong relationships, both internally and externally, we managed the challenges and opportunities presented by a vibrant energy industry.

These achievements and the focus of our company efforts are highlighted in the 2005 Annual Report, in a new format that recognizes the evolution of corporate reporting across Canada and the United States. Management accepts responsibility for the information presented in this Annual Report. Readers will see a heightened focus on reporting on objectives, progress and results within these pages and less of a thematic approach toward the year just completed.

As a company, we are embracing this transition. We have an outstanding story to tell and are fully prepared to have our performance evaluated by the public and our shareholder, measure by measure. This "balanced perspective" recognizes that financial measures alone, while critical and fundamental, do not solely determine the long-term operational health of our company – accordingly, you will see our continuing focus on safety, competitive rates, customer service excellence and community responsibility.

Much of the Executive team efforts in 2005 focused on attaining core business excellence in our distribution, transmission and storage businesses. We are proud of our many achievements in these areas, such as:

- The lowest provincial natural gas commodity rates in Canada in 2005 for our 329,000 distribution customers, and delivery rates that will remain unchanged in 2006 – the ninth consecutive year.
- The third consecutive year of decreases in our TransGas transportation rates, which continue to remain lower than our prime competitor in Alberta.
- Expansion of our fully contracted natural gas storage service with the first two of our new caverns coming into service near Asquith, Saskatchewan, allowing us to meet the growing energy needs of the Saskatoon area.

- A strong customer focus, in co-operation with the Government of Saskatchewan, to deliver meaningful programs to encourage energy efficiency. In November, the provincial government announced the Saskatchewan Energy Share, with up to $167 million in funding to provide rate relief and stimulate long term changes in energy consumption. SaskEnergy is playing a major role in delivering these Saskatchewan Energy Share programs to Saskatchewan residents and businesses.

- Strong financial performance of $77 million in consolidated net earnings, demonstrating effective management of cost pressures as well as revenue generation opportunities.

A good year does not cause us to look upon the future with complacency. As we look toward a renewal of our long term strategic plan in 2006, we are focused on finding long term business solutions which maintain existing customer service commitments, while creating new opportunities.

The distribution (SaskEnergy) and transmission utility (TransGas) businesses illustrate our central challenge. When our company was formed in 1988, virtually all of our earnings came from these primary businesses, in the backdrop of a highly stable pricing environment. In 2005, the two businesses continued to contribute stable earnings, but in the context of several new business directions which best used our human resources and infrastructure in a highly volatile commodity environment. This reality of how we think about our business has changed.

For example, elevated energy pricing has encouraged conservation – residential customers today use approximately 18% less natural gas than in 1988. But helping them convert to high-efficiency equipment ensures they will remain customers for many years to come. Transmission customers have responded to high prices by moving more volume on the system, and in 2005, a new one-day record for Saskatchewan receipts onto the TransGas system was set. Our approach in TransGas is to continually and carefully manage our costs, while seeking more opportunities to transport natural gas.

However, sustaining broader profitability will mean capitalizing on a business environment where prices will remain volatile and by North American standards, historically high. We've already started down that road:

- Spare transmission and storage capacity in off-peak periods allow us to earn additional revenue through gas marketing activities. On a consolidated level, net sales from these activities generated $8.6 million in earnings during 2005.

- Investments in a Chilean distribution company and a Mexican transmission business continue to be profitable. Heritage Gas, our Nova Scotia distribution company, is effectively working through the challenges of a greenfield development with recognition of the tremendous potential of delivering environmentally friendly natural gas to Nova Scotians. Substantial system expansion will occur in 2006.

- Because of our ownership of distribution and transmission assets, we are well-positioned to look at new business directions created by both price and environmental dynamics. We are examining opportunities within Saskatchewan that will support both company sustainability and provincial economic development.

Throughout the changing energy environment of the past few years, employees have remained our strength. We have an experienced workforce that successfully handles more than one million customer interactions annually, and recognizes safe working practices as a core value. We have the expertise to transition into new initiatives, as indicated with our continuing success operating *Sask 1st Call* on behalf of 22 subscriber companies.

Yet we recognize that very same experience and expertise must be transitioned to the next generation of men and women at SaskEnergy. SaskEnergy initiated a significant workplace renewal initiative in 2005 to bring together the demographic, staffing and technological solutions we will need to implement over the coming years.

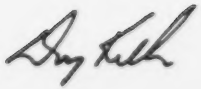
The workplace renewal project is one of several areas where the intersection between public policy and business objectives as a Crown corporation has given us a strategic opportunity to position our company for future success. As one of the companies in Saskatchewan which has been successfully integrating Aboriginal employees into our corporate culture for more than a decade, we see great opportunity in the coming demographic changes facing Saskatchewan.

As a service-based Crown corporation, our deep connection to Saskatchewan is illustrated on several fronts:

- More than 90% of our customers indicated their satisfaction with SaskEnergy's service levels in 2005 customer satisfaction surveys.
- SaskEnergy purchased 70% of its materials from local suppliers in 2005.
- We invested $1.59 million to support 1,271 community and charitable initiatives as we celebrated the Saskatchewan Centennial in 2005, highlighted by the more than 100 employees who became involved in sponsorship of the Canada Summer Games.

As President, it is ultimately very satisfying to lead an organization that has not only had a lengthy and successful track record of safety, service and efficiency, but one which is indeed committed to making our communities better, year in and year out. I look forward to 2006, proud and humbled to lead what I know is a great company.

Sincerely,



Doug Kelln
President and Chief Executive Officer

Management's Discussion and Analysis

The Management's Discussion and Analysis (MD&A) highlights the primary factors that impacted the operations and financial results of SaskEnergy Incorporated (SaskEnergy or the Corporation) and its wholly owned subsidiaries for the year ended December 31, 2005. Using the 2005 financial and operating targets and results as its basis, the MD&A describes the Corporation's past performance and future prospects. This enables readers to view SaskEnergy from the perspective of management.

This MD&A, together with the 2005 audited consolidated financial statements of the Corporation and related notes, forms the basis for financial reporting. Additional information about the Corporation can be obtained from the Corporate Social Responsibility Report that together with this MD&A comprises the SaskEnergy 2005 Annual Report.

This discussion contains certain forward-looking statements that are subject to inherent uncertainties and risks. Risks are outlined in the Risk Management section of this MD&A. Consequently, actual results and events may vary significantly from those included in, contemplated or implied by such statements.

SaskEnergy's business plan is focused on six strategic mandates which drive every aspect of the business:

These strategic mandates play a crucial role in the Corporation's business planning, but they play an equally important role in its business *reporting*. Each year, SaskEnergy and TransGas comprehensively measure, report and set targets for all aspects of the Corporation's business according to a precise set of benchmarks directly aligned with CIC's Crown Sector Strategic Plan and overall strategic objectives.

To fulfill several Crown corporation and Provincial Auditor recommendations and help Saskatchewan residents better understand the business, the SaskEnergy 2005 Annual Report is focused on the Corporation's performance as reported in the Balanced Perspective – a SaskEnergy scorecard format used to monitor and manage organizational performance. Discussed in detail in the Management's Discussion and Analysis as well as in the Corporate Social Responsibility Report, the Balanced Perspective provides a comprehensive picture of the Corporation's 2005 financial results and key operational details about SaskEnergy and its wholly owned subsidiaries.

While SaskEnergy's performance management processes have relied on the Balanced Perspective scorecard approach for the past several years, the targets and measures have changed over time in response to the Corporation's evolving

objectives and emphasis. For this reason, there are certain targets established for 2005 for which no comparative data is available, and further, there are some measures used in 2005 that will no longer be used in 2006 and beyond. Comparative data has been included in the scorecard for the 2005 measures wherever practical to do so, even if it was not formally used as a target in the performance management process for that year.

The first part of the MD&A is organized in terms of the Balanced Perspective operating results related to four of the Corporation's six strategic mandates: Competitive Rates, Customer Service Excellence, Safe and Reliable Operations, and Delivering Shareholder Value. Results with respect to the Corporation's other two strategic mandates – Community and Environmental Responsibility and Engaging Employees – are discussed in the Corporate Social Responsibility Report.

The second part of the MD&A contains information specifically related to the Corporation's 2005 financial performance.

Sections consist of:

FINANCIAL AND OPERATING ACHIEVEMENTS –
a review of SaskEnergy's consolidated financial results and performance measurement

STATEMENT OF EARNINGS ANALYSIS –
an analysis of the Corporation's consolidated revenue and expense categories

WHOLLY OWNED SUBSIDIARIES –
a discussion of the financial results of SaskEnergy's wholly owned subsidiaries

SENSITIVITY ANALYSIS –
an indication of the sensitivity of the financial results of the Corporation to changes in key factors

LIQUIDITY AND CAPITAL RESOURCES –
a review of the Corporation's financial condition and cash flow

RISK MANAGEMENT –
a description of the business and financial risks identified by the Corporation, their potential impacts, and how they are managed

CRITICAL ACCOUNTING POLICIES AND ESTIMATES –
an overview of significant accounting policies and estimates used by the Corporation

Immediately following the MD&A are the Corporation's Consolidated Financial Statements.

These consist of:

STATEMENT OF MANAGEMENT S RESPONSIBILITY FOR FINANCIAL STATEMENTS

AUDITORS' REPORT

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

CONSOLIDATED STATEMENT OF CASH FLOWS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Competitive Rates

OBJECTIVE: Provide fair, stable and competitive rates, while contributing to the objective of having the lowest delivered cost for residential customers.

COMPETITIVE RATES – *SASKENERGY*

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
SaskEnergy to achieve the lowest weighted average cost of gas among major Canadian utilities	2nd lowest	4th lowest	lowest	lowest	lowest	lowest	lowest
SaskEnergy to maintain lowest rates in Canada for distribution delivery service for residential customers	2nd lowest	2nd lowest	2nd lowest	lowest	lowest	lowest	lowest

Each year, SaskEnergy strives to achieve the lowest cost of gas for its customers compared to other major Canadian natural gas utilities. All utilities who buy natural gas in the open marketplace, including SaskEnergy, are subject to the same market forces and do not control the market price of natural gas. For this reason, SaskEnergy strives to differentiate itself from other utilities by strategically managing the risk associated with the volatility of natural gas purchase prices.

SaskEnergy uses financial instruments to help minimize some of the natural gas purchase price volatility that typically exists during the winter months. These instruments help contribute to SaskEnergy's objective of providing a commodity rate for customers that is both low and stable. The measure of the lowest cost of gas is calculated each year by comparing SaskEnergy's weighted average cost of gas to those of other Canadian natural gas utilities.

The Corporation serves a vast yet sparsely populated geographic area in the Province, where natural gas must often be transported a great distance to customers. As a result, SaskEnergy is inherently disadvantaged with respect to having the lowest delivery costs in the country when compared to Alberta utilities.

For this reason, until 2005 SaskEnergy established a target of having the second-lowest rates in Canada for natural gas delivery service. To meet this target, SaskEnergy strives each year to manage the costs that are under its control, such as operating and maintenance costs. With the gap closing between SaskEnergy's delivery rates and those of Alberta utilities, for 2006 onward SaskEnergy has set a goal of having the lowest delivery rates in Canada – a target that will help the Corporation maintain its cost structure, while continuing to provide competitively priced service to Saskatchewan residences and businesses.

COMMODITY COSTS

The North American natural gas marketplace is continental. If a major natural gas price-changing event takes place in one part of North America, its impact is felt across the continent. This was never more evident than in 2005, when natural gas prices experienced continued volatility for a variety of reasons.

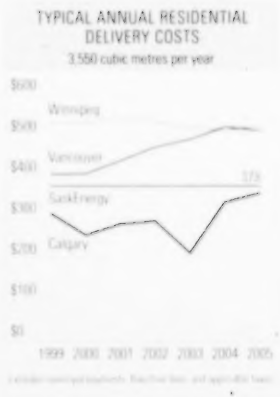
Summer prices were high compared to previous years, and moved even higher as warmer-than-usual summertime weather continued across the eastern half of North America. The unusually warm summer increased demand for natural gas as electric utilities turned to natural gas-fired generation equipment to meet increased demand caused by air-conditioning.

At the same time, the Gulf of Mexico – a major natural gas-producing region – experienced the most destructive hurricane season in its history. Two major hurricanes, Katrina and Rita, devastated the United States Gulf Coast, including a vast number of off-shore oil- and gas-producing platforms. Virtually all of the Gulf Coast's natural gas production was shut down and was very slow in coming back on-line, adding a great deal of uncertainty over the supply for the winter of 2005-2006. Coupled with concerns over a very cold winter, these supply issues led to record-high natural gas prices in the fall of 2005.

SaskEnergy applied to the Saskatchewan Rate Review Panel in October for a commodity rate increase to $10.88/Gigajoule (GJ). The previous rate of $6.97/GJ had been in effect since August, 2003. On November 2, the Provincial Government capped the effective price consumers would pay at $7.95/GJ until March 31, 2006 as part of the Saskatchewan Energy Share. With its commodity rate reduced by this one-time initiative, SaskEnergy was successful in providing Saskatchewan residents with the lowest-cost natural gas in the country for 2005.

DELIVERY COSTS

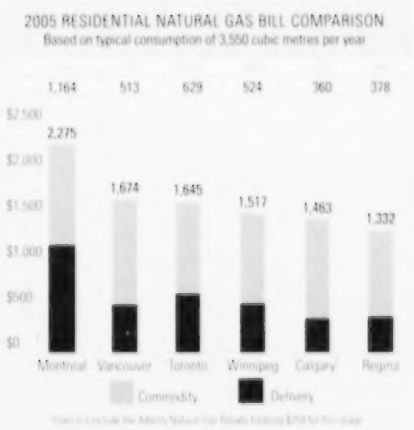
Throughout the year, the distribution utility contained its internal costs through efforts to reduce borrowing costs as well as ongoing initiatives to reduce operating and maintenance expenses. As a result, SaskEnergy once again met its target of having the second-lowest natural gas delivery rates in Canada for 2005, marking the eighth consecutive year the company maintained its delivery rates at their existing levels. The last delivery rate increase – of only 2.3% – occurred in July, 1997.



SaskEnergy's residential natural gas delivery rate remained unchanged in 2005, making it the second-lowest in western Canada, and in fact the entire country. This is especially meaningful because SaskEnergy provides postage-stamp delivery rates to all customer classes, including more than 23,000 farms across the Province. As a result, the typical Saskatchewan residential customer had natural gas delivery costs that were the second-lowest in Canada, and were only $18 dollars – or a nickel a day – higher than those in Calgary. Delivery costs typically represent less than one-third of a customer's bill.

COMBINED COMMODITY AND DELIVERY COSTS

With assistance from the Saskatchewan Energy Share, SaskEnergy met its 2005 targets with respect to commodity rates. As a result, Saskatchewan residents had the lowest average annual bills in Canada compared to natural gas consumers in other provinces.



OBJECTIVE: Provide fair, stable and competitive rates for all customers.

COMPETITIVE RATES – *TRANSGAS*

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
TransGas to provide fair and stable rates to all shippers, with a focus on maintaining a highly competitive position compared to TCPL Alberta - Transportation rates (cents per GJ)	25.1 (lower than target by 6.2 cents)	26.1 (lower than target by 6.7 cents)	25.2 (lower than target by 5.0 cents)	Lower than Alberta system	Lower than Alberta system	Lower than Alberta system	Lower than Alberta system
Competitive storage rates - capacity contracted (%)	100	100	100	100	Not used for 2006 onward		

To establish a benchmark measurement for competitive natural gas transportation rates, the TransGas Export Rate is compared to that offered by TransCanada PipeLines' NOVA Gas Transmission Ltd. subsidiary (NOVA) – a company that provides services in Alberta comparable to those TransGas provides in Saskatchewan.

This measurement compares the transportation cost to move natural gas from an average receipt point in Alberta to the export market with the transportation cost to move natural gas from any receipt point in Saskatchewan to the export market. This comparison is indicative of TransGas' overall cost competitiveness. The cost of natural gas transportation is one of many factors producers and large end users take into consideration when deciding whether or not to invest in Saskatchewan operations and contribute to the Province's economy.

The cost and availability of natural gas storage service is also a consideration for customers. TransGas contracts storage capacity annually for residential, commercial and industrial customers to use primarily during the winter months. In the past, the percentage of total available capacity contracted for the year was a key indicator of the competitiveness of TransGas' storage rates. TransGas storage has been fully contracted for the past eight years, clearly demonstrating that TransGas provides competitive storage rates and service.

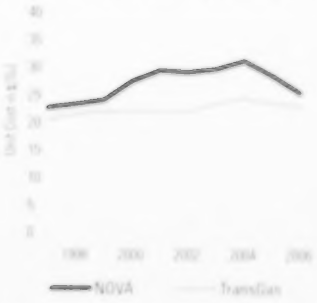
As a result, TransGas' storage business is now focused on exploring how to expand storage service and capacity, and effective 2006, the percentage of storage contracted will not be used as a measure of the competitiveness of storage rates.

TRANSGAS TRANSPORTATION RATES

Natural gas transportation rates are an important component of a shipper's cost of doing business in Saskatchewan. As a result, when producers choose to develop new or incremental supply areas, or when end users commit to consuming natural gas, they expect transportation rates to be competitive with those on other pipelines in western Canada.

TransGas' rates continued to compare favourably in 2005. Having reduced transportation and storage rates by an average of 3.4% for customers at the end of 2004, TransGas maintained its rates at those levels throughout 2005. By year end, this second consecutive year of rate reductions meant that TransGas' transportation rates were approximately 20% lower than those on the Alberta system. Although NOVA's 2006 transportation rate reduction will narrow the gap between the two companies' rates, TransGas expects to maintain a competitive advantage into the future.

TRANSGAS' COMPETITIVE POSITION



High volumes of natural gas transported through the TransGas transmission system during 2005 helped the Corporation further reduce its rates. Production from the recently developed Shackleton reserve area located northwest of Swift Current continued its strong performance as it reached 140 Terajoules/day (TJ/d) in late December. Over the course of the year, TransGas added a total of 16 new receipt points to its system. On December 22, receipts of Saskatchewan-produced natural gas transported onto the TransGas pipeline system totalled 785 TJ/d. This surpassed the previous record of 772 TJ/d set in April, 2004, and helped bring the total amount of Saskatchewan receipts transported on the TransGas system in 2005 to 267 PJ. The total amount of Saskatchewan receipts was an overall 1% decrease from 2004 because general production declines slightly exceeded the incremental production from new gas wells.

The Corporation earned transportation revenue of $80 million in 2005, primarily due to high volumes of natural gas transported on the TransGas system. This was down $2 million from 2004, mainly due to the average 3.4% transportation rate decrease implemented for 2005. Combined with continued operating, maintenance, and administrative cost containment, these revenues allowed TransGas to reduce its transportation rates for the third consecutive year. In November 2005, TransGas announced that rates would be reduced by an average of 2.6% effective January 1, 2006.

The Corporation continues to find innovative ways to reduce its internal costs. When conducting an in-line inspection (ILI) of a pipeline section from Bronson Lake to the Paynton compressor station in 2005, TransGas used a drawdown compressor to reduce pressure in the line. This minimized the amount of natural gas that had to be vented to the atmosphere, saving approximately $150,000 and reducing the Corporation's greenhouse gas emissions. TransGas plans to use a drawdown compressor on similar projects in the future.

TRANSGAS STORAGE RATES

Saskatchewan is located between the major natural gas-producing areas to the west and the major energy-consuming areas in eastern Canada and the United States. As a result, natural gas storage is an important and cost-effective service offering for TransGas customers. By contracting non-site-specific physical storage capacity at TransGas' eight storage locations across the Province, customers can balance their demand and supply capabilities, as well as help manage their supply costs.

In 2005, TransGas had 35 Petajoules (PJ) of storage capacity. All of this capacity was fully contracted, including the two newly operational storage caverns at the Asquith natural gas storage facility. These caverns help provide critical additional natural gas supply security for the Saskatoon area. This marked the eighth consecutive year that storage was fully contracted – a trend that is likely to continue into the future, since TransGas' January 1, 2006 rate reduction will extend to natural gas storage service in addition to transportation service.

When the solution mining of caverns two and three was completed in July at the Asquith facility, crews removed approximately one mile of 5.5-inch wash line from the well bore. It was then replaced with the same amount of 4.5-inch piping so natural gas could be injected into and withdrawn from the caverns. The two caverns were fully operational for the winter of 2005-2006.

SASKENERGY RATES

Like other Canadian natural gas utilities, SaskEnergy is mandated to recover, without profit, the cost of the gas it purchases for its customers on the open market. Natural gas prices in the North American marketplace are very volatile – approximately 1,000 times more so than interest rates. Therefore, it is impractical to predict how much customers will pay for the natural gas they consume in any given year. By actively managing the price at which it purchases customers' natural gas, SaskEnergy will continue working to provide Saskatchewan customers with the lowest natural gas commodity rate in Canada in 2006.

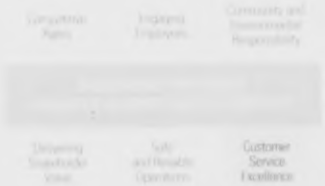
While SaskEnergy does not control commodity costs, the Corporation does control its internal costs which are reflected in its delivery rate. As a result of ongoing cost-containment measures, SaskEnergy does not expect to increase its natural gas delivery rate in 2006, marking the ninth consecutive year this rate will remain unchanged.

TRANSGAS RATES

TransGas expects natural gas transportation rates to be fairly stable through the 2008 planning period. Similar to TransGas, NOVA will implement rate reductions in 2006 which will slightly close the gap between the companies' transportation rates. Still, TransGas expects to maintain a competitive position compared to NOVA for the foreseeable future.

TransGas anticipates that storage will be fully contracted in 2006 and beyond. For this reason, the Corporation is reviewing preliminary plans to expand storage capabilities at certain sites in the Province. Storage development is costly and requires considerable lead time, so the Corporation requires firm commitments from customers to justify any future long-term investment. All four storage caverns at Asquith will be operational by 2007.

Customer Service Excellence



OBJECTIVE: Develop and optimize customer service processes that meet existing customer needs and new customer growth. The customer service experience will be enhanced through strong relationships and customer choice.

CUSTOMER SERVICE EXCELLENCE – *SASKENERGY*

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
% of customer satisfaction with SaskEnergy service	90	87	94	85	85	87	87
% of time new SaskEnergy customer tie-ins meet customer needs (90 days or less)	New in 2004	95	98	95	95	95	95
% of SaskEnergy customers using e-business tools	9	20	35	20	25	30	35

With customer interactions such as inquiries, service calls and in-person bill payments exceeding 1,000,000 per year for the distribution utility, the level of satisfaction with SaskEnergy's service is a key indicator of the Corporation's ability to meet customer needs. This measure, obtained from an annual customer survey conducted by an independent market research firm, is an important tool for evaluating the overall effectiveness of the policies, processes and people required to provide service to SaskEnergy's customers.

By working with all concerned parties – including land developers, municipal governments and individual businesses or homeowners – SaskEnergy strives to provide natural gas service in a timely and cost effective manner. A measure of the company's success in this respect is the percentage of new customers connected to the distribution system within 90 days of first requesting service. This percentage is calculated by dividing the number of times SaskEnergy has provided service within the allotted time by the total number of service requests.

In recent years, the percentage of customers using SaskEnergy's on line services has become an increasingly important means of judging both the distribution utility's efficiency and its ability to meet changing customer needs. This measure is calculated as a percentage of residential customers using multiple on line services.

CUSTOMER SATISFACTION

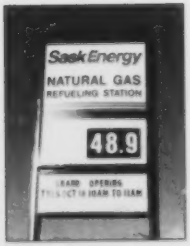
As in past years, SaskEnergy achieved high customer service satisfaction levels in its annual survey. In the 2005 survey, over 94% of participating customers rated their overall satisfaction with SaskEnergy's service as "good", "very good" or "excellent". This level of satisfaction suggests that, although challenged by higher commodity prices, customers still view SaskEnergy positively. This is a reflection of a number of factors such as the quality, responsiveness and reliability of service.

CUSTOMER CONNECTIONS

Historically, SaskEnergy adds a gross amount of approximately 3,000 new service connections to its distribution system each year. Requests for natural gas service come from throughout SaskEnergy's service territory – an area covering more than 380,000 square kilometres. SaskEnergy administers these service requests through a work management process that tracks activity from the date of request to the final in service date.

During 2005, SaskEnergy installed 3,157 new customer service lines, with 2,954 of these installed within 90 days of receiving the request. This equates to a success rate of 94% – similar to the 2004 results, as well as the 2005 target. Many of these services were installed in less than 60 days, particularly in subdivisions in the Province's major urban centres. This is especially impressive considering SaskEnergy is one of only a few natural gas utilities in Canada that installs new service lines during the winter season so customers can begin receiving their natural gas supply at any time during the year.

Of the 203 services installed outside the targeted 90 days, the majority were in place before the customer actually needed or was ready to consume natural gas. Most of the delays in serving these 203 customers were the result of either the customer's site not being ready to receive natural gas, or delays in receiving third party approvals. In those instances where the delay was expected to be significant, SaskEnergy advised the customers individually to allow them to make alternate arrangements.

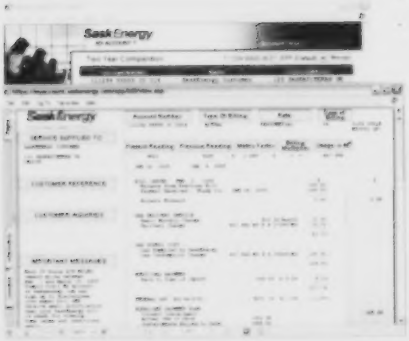


In October, SaskEnergy officially opened its public Natural Gas Vehicle Refueling Station in Swift Current. The facility is the seventh of its kind SaskEnergy operates in Saskatchewan.

E-BUSINESS TOOLS

General customer feedback throughout the year showed strong acceptance of and support for the growing number of e-business options offered through www.saskenergy.com – as an increasing number of customers used SaskEnergy's on-line services. These options represent an increase in customer choice, satisfying customers who prefer new electronic communications as well as those who prefer more traditional communications with the Corporation.

By year's end, customers completed over 94,000 transactions on-line, taking advantage of recently introduced services such as My Account, eBill, Contact Us and ExpressAddress. Email inquiries alone increased 260% over the number received in 2004. Although there is no practical way of knowing if customers completed multiple transactions, the total amount of transactions means potentially 35% of SaskEnergy customers used one of these website services. This was considerably higher than the 2005 target, indicating that SaskEnergy is helping its customers manage their business in the most convenient and cost-effective manner possible.



My Account provides a convenient on-line way for customers to view electronic copies of their bill, track payments, and even follow their past two years of natural gas usage. In 2005, My Account gave customers the option of eliminating paper billing altogether. This new service will save SaskEnergy $5 per participating customer each year.

OBJECTIVE: Develop and optimize customer service processes that meet existing customer needs and new customer growth. The customer service experience will be enhanced through strong relationships and customer choice.

CUSTOMER SERVICE EXCELLENCE – *TRANSGAS*

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
% of customer satisfaction with TransGas service	90	96	89	85	85	87	87
% of time new TransGas customer tie-ins meet customer needs (90 days or less)	50	67	84	95	95	95	95
% of TransGas customers using e-business tools	88	88	95	90	90	95	95

Customer satisfaction is an important indicator that TransGas is devoting adequate resources and attention to customer needs. The percentage of customer satisfaction with TransGas service is derived from an independently conducted annual Internet survey of all TransGas customers. Customer satisfaction is measured on a scale of zero to 10 in which customers rate TransGas staff in four categories: overall company knowledge; responsiveness; friendliness; and empowerment to serve. A cumulative percentage average of these measures is reported.

The measure of how often new customer tie-ins meet customer needs indicates the percentage of the time TransGas transmission system receipt tie-in facilities are completed and ready for use within a particular timeframe. This must occur either before or at the same time customers are ready to make their first flows of natural gas meeting TransGas tariff-quality specifications onto the transmission system. TransGas establishes each customer's estimated in service date at the time of commitment, and continues to refine this date throughout the construction period in consultation with the customer to ensure that both parties' expectations and schedules are reasonably aligned.

The number of customers using TransGas' e-business tools is an important indicator of the Corporation's efficiency. To determine this measure, a report is generated listing all active TransGas customers. A different report is then generated and refined to calculate the number of companies logging into TransGas' secure web applications and using the five main e-business applications – Daily Energy, Nominations, Daily Allocations, Shipper Imbalance and Monthly Allocations. Based on these two numbers, a percentage of companies using TransGas' e-business applications is calculated.

CUSTOMER SATISFACTION

TransGas transports natural gas for 121 customers – those who produce gas for delivery onto the TransGas pipeline system, and those who receive gas from the system either for consumption or resale. Producing customers range in size from small companies with a few production wells to large-scale producers delivering gas onto the system at many different receipt points.

Consumers who receive natural gas from the TransGas system include large industrial customers, power plants and the SaskEnergy distribution utility. Transportation service billing for these larger scale producing and consuming customers is typically in the range of $100,000 to $500,000 per year.

Delivering personalized service to these customers is always a major business focus for TransGas. Customer interaction starts with the initial phase of connecting a customer to the physical network and committing contractually to provide natural gas transportation service. From that point on, the customers usually interact with TransGas on a daily basis to utilize capacity on the pipeline system, so the company continually trains and develops staff to respond appropriately to individual customers' changing needs. Using Key Account Managers – employees who specialize in handling the accounts of specific large-volume natural gas transporters – is a successful way of providing efficient and personalized service.

Another important component of TransGas' customer service strategy is the TransGas Customer Dialogue process. Comprised of TransGas employees and representatives from 17 companies which make up 70% of TransGas flow volumes, the Customer Dialogue Group allows customers to have input on TransGas service offerings, policies, capital expenditures and rate design. During its four meetings in 2005, the Customer Dialogue Group helped TransGas refine a number of its customer service policies, including the average 2.6% transportation rate reduction for 2006 that was announced in November.

This attention to customers' evolving needs was reflected in the results of TransGas' 2005 customer service survey. In the four categories that comprise the survey, customers indicated an overall level of 89% satisfaction with TransGas staff and service – a rating well above the target of 85%. This percentage is lower than those in 2003 and 2004 because survey criteria were refined in 2005. Survey results for 2005 and beyond will reflect these changes to the survey.

CUSTOMER TIE-INS

The company's record with respect to meeting customer needs for system tie-ins was a key reason for the high level of satisfaction with TransGas' service in 2005. Once a customer has committed to transportation service, TransGas' objective is to have facilities constructed and ready for operation prior to the customer's estimated in-service date. Because customers have invested significantly in their facilities, service delays can negatively impact their operations. At any given time, delays can be caused by factors including weather conditions and the availability of materials and personnel.

In 2005, TransGas exceeded customers' expectations for availability of service for 16 out of 19 receipt-related projects – or 84% of the time. While short of the established target of 95%, this was a marked improvement over previous years. In the three instances when TransGas was delayed in beginning service, customer impact was minimized and service was provided within 30 days of the agreed-to in-service date.

E-BUSINESS TOOLS

Once they begin service, many TransGas customers see benefits in performing significant components of their daily business electronically. As a result, over the past few years TransGas has developed the operational side of www.transgas.com to meet this need.

Major website redevelopment in 2005 included the creation of a web-based message board through which internal users can access report outputs, read error messages, and identify and correct any problems resulting from the processing of data. Another system upgrade allows customers to allocate metered energy at receipt points to various transport contracts immediately at month-end. One of the most significant enhancements automated the process whereby Common Stream Operators (those responsible for ensuring natural gas is properly allocated to shippers at receipt points) submit their allocations on a daily basis.

These enhancements helped increase the number of customers using TransGas' e-business service offerings. Over the course of 2005, TransGas e-business web applications recorded a total of 1,102,800 hits, which was a 30% year-over-year increase. By year end, 95% of TransGas customers were doing business electronically, which was 5% above the target for 2005. The results are tangible – reduced administrative time and increased efficiency both for TransGas and for the majority of its customers.

SASKENERGY CUSTOMER SERVICE

SaskEnergy is committed to achieving high levels of customer satisfaction throughout its customer base. This means looking for ways to make sure business policies meet customer needs and are applied fairly and consistently throughout Saskatchewan. It also means SaskEnergy must help customers use energy wisely by supporting and delivering new initiatives such as the energy efficiency programming introduced in November, 2005 as part of the provincial government's Saskatchewan Energy Share.

Energy conservation initiatives for customers are important to the future sustainability of SaskEnergy's distribution business. Although such initiatives actually lower delivery revenue, they help customers use natural gas as efficiently as possible, encouraging them to choose natural gas to meet their long-term energy needs.

SaskEnergy anticipates installing approximately 3,000 new services each year, and will work to provide natural gas service in a timely and cost-effective manner well in advance of customer needs. With the majority of service requests occurring in the Province's major urban centres, the target of beginning natural gas service within 90 days is achievable in most instances.

In 2006, SaskEnergy will continue to build its partnerships with the SaskEnergy Network and new Commercial Network to help deliver a variety of customer options and solutions, including financing and commercial leasing.

SaskEnergy will also continue to enhance customer choice by introducing and promoting convenient on-line services. Increasing the number of customers who access their bills on-line will be a priority in 2006, providing a convenient option for customers while reducing SaskEnergy's printing and mailing costs.

TRANSGAS CUSTOMER SERVICE

TransGas continues to receive high industry ratings in customer service, and is committed to meeting these high standards in 2006. As in the past, the Customer Dialogue process will provide a forum for customer input on ways for TransGas to increase the throughput and utilization of its pipeline and storage system. The Corporation is constantly challenged to improve efficiency, increase revenue, reduce costs and offer new services, and the Customer Dialogue process will play an important role as TransGas looks for ways to improve business policies to meet customers' changing needs.

Meeting customer needs for new tie-ins will remain a focus in 2006. TransGas will work to improve upon the current 84% achievement rate for having TransGas facilities available when needed by the customer. In part, this will involve holding customer workshops and direct customer meetings to improve the understanding of both TransGas and individual customer requirements.

Improving web tools and applications will also be a focus for TransGas Customer Services in 2006. For example, during the year TransGas will implement another e-business application which should bring the percentage of TransGas customers using e-business tools to close to 100%. While invoices and statements are currently faxed to some customers, this will change by the end of 2006 when customers will easily be able to track, view and print their invoices and statement details from the secure section of the website. This application will improve efficiency both for TransGas and for its customers, virtually completing the move from paper and faxes to on-line access.

Safe and Reliable Operations

OBJECTIVE: Design, operate and maintain a natural gas delivery system that meets customer reliability expectations and achieves industry standards for public safety.

SAFE AND RELIABLE OPERATIONS – *SASKENERGY*

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Unplanned outages per 1,000 customers	2.2	5.4	5.3	3.0	2.5	2.5	2.0
Contacts with pipeline per 1,000 kilometres of pipe	2.7	1.9	2.6	2.8	2.5	2.5	2.4
% of the time SaskEnergy and TransGas respond to safety-related incidents within one hour	New in 2004	96	88	98	98	98	98

A key performance measure to gauge the reliability of SaskEnergy's natural gas distribution system is the number of unplanned service outages that impact customers. This is an industry measure that expresses outages per thousand customers. These outages may result from third party actions or from work being done by SaskEnergy that inadvertently impacts gas service to customers.

Excavation activities conducted near SaskEnergy pipelines heavily impact the safety and reliability of the Corporation's underground facilities. The number of contacts with SaskEnergy pipeline facilities each year is an important measure of the overall effectiveness of the Corporation's efforts through *Sask 1 Call* and other "Call Before You Dig" messaging to increase public and contractor awareness of SaskEnergy facilities. The fewer contacts with SaskEnergy's infrastructure, the less likely a safety-related incident will occur or an unplanned outage will impact natural gas service to customers.

The response time to priority safety calls is a key indicator of the Corporation's ability to provide safe and reliable service, maintain the integrity of its facilities, and protect the public. This consolidated measure is calculated as a weighted average percentage of the time SaskEnergy and TransGas respond to safety-related incidents within

one hour. The individual percentage for SaskEnergy's distribution utility is discussed here.

In 2005, SaskEnergy had an unplanned outages ratio of 5.3 outages per 1,000 customers, which represents a slight improvement compared to 2004. The most significant unplanned outage occurred in December when service was temporarily disrupted for more than 600 customers in Estevan. In all instances, SaskEnergy restored service to affected customers within a short time.

Analysis of the incidents resulting in unplanned outages indicate that SaskEnergy must continue focusing on two factors to reduce the number of unplanned outages – improving the planning and execution of system maintenance processes, and decreasing the number of incidents in which third parties make contact with distribution pipelines.

The ratio of third party contacts with SaskEnergy pipeline in 2005 was 2.6 per thousand kilometres of pipeline – higher than in 2004 but under the established target and lower than historical levels. A major contributing factor to this statistic is the Corporation's annual safety-related public awareness campaign. Market research in 2005 indicated that Saskatchewan residents have a strong recall of key safety messages encouraging contractors and homeowners to exercise caution in the vicinity of SaskEnergy facilities.

Providing 24 hour a day service to a large service area poses a significant challenge for the Corporation – having staff available at all hours to respond to safety-related incidents across the Province within an industry-acceptable timeframe. This challenge is especially great in rural areas where the customer base is smaller, more dispersed and more remote than in the larger urban centres. Each year, the SaskEnergy distribution utility meets this challenge by having service staff located in close to 40 communities throughout the Province.

In 2005 SaskEnergy was able to respond to safety-related incidents within the hour 87% of the time, with an average response time of only 35 minutes. Overall, the weighted percentage taking into account both SaskEnergy and TransGas' response times was 88%, still a considerable achievement given the challenges inherent in responding within one hour to calls across such a wide service area.

OBJECTIVE: Design, operate and maintain a natural gas delivery system that meets customer reliability expectations and achieves industry standards for public safety.

SAFE AND RELIABLE OPERATIONS – *TRANSGAS*

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Unplanned outages per year	3	8	3	0	0	0	0
Contacts with pipeline per year	3	1	2	0	0	0	0
% of the time SaskEnergy and TransGas respond to safety related incidents within one hour	New in 2004	96	88	98	98	98	98

The number of unplanned outages on the TransGas system is a key indicator of how safe and reliable the Corporation's service is for customers, employees and the general public. An unplanned outage is classified as any non-scheduled disruption of service that negatively impacts a shipper's firm receipt transport, delivery transport or storage as related to TransGas' contractually specified requirement to maintain demand, pressure and gas quality obligations. A minimum of 24 hours notice to affected customers is required for an outage to be deemed a planned outage.

TransGas also assesses the safety and reliability of its operations in terms of the number of annual incidents where employee, contractor, or third party contact with a pipeline results in damage to the pipeline or its protective coating. Such incidents do not need to involve the loss of natural gas to be considered a pipeline contact.

As mentioned earlier, an important indicator of the Corporation's ability to provide safe and reliable service is the percentage of the time SaskEnergy and TransGas respond to safety-related incidents within one hour. The individual percentage for TransGas – which contributes to the overall weighted average percentage – is discussed here.

Unplanned TransGas outages can occur for a variety of reasons, however there are two primary types of activity that can result in unplanned customer outages. The first type of activity is TransGas operations-related, where an unplanned outage occurs during the course of normal or planned maintenance, or due to an equipment or facility failure. Through appropriate training in operations and maintenance procedures, and with thorough outage planning and execution, TransGas strives for no unplanned customer outages related to normal operations activities. In addition, TransGas monitors gas quality and daily operational limits using the computerized Supervisory Control and Data Acquisition system (SCADA) and a variety of other equipment to ensure service to customers is not interrupted. These efforts were very successful in 2005, with approximately 200 outages scheduled and completed with no unplanned customer outages.

The other factor that can interrupt service to customers is external, third-party activity that typically involves contact with a pipeline. TransGas has a variety of measures in place to minimize the number of these pipeline contacts.

TransGas had three unplanned outages in 2005 – five less than in 2004. Two of the three unplanned outages in 2005 were a result of minor TransGas system maintenance that impacted customer service. The third occurred as a safety precaution when TransGas temporarily suspended service to a customer because of a suspected pipeline leak.

Because of the dangers that can result from coming into contact with a high pressure natural gas transmission pipeline, TransGas conducts a comprehensive public safety awareness program each year and is a participating member of Sask 1st Call. Despite these measures, the possibility does exist that an employee, contractor or member of the public may inadvertently damage one of TransGas' pipelines during excavation.

There were two third-party contacts with TransGas pipeline during the year, both of which were on four-inch diameter pipelines. In both cases, the contractors involved had not notified *Sask 1st Call* to arrange for a line locate prior to excavation. Neither pipeline contact resulted in loss of customer service, leakage of natural gas, or injury to those involved. In one instance, however, a section of pipeline was damaged severely enough to warrant replacement. Following these incidents, the contractors involved were made aware of the need to use *Sask 1st Call* to request a line locate prior to any future excavations.

In 2005, a combination of sophisticated monitoring technology and well-rehearsed safety procedures helped TransGas respond to safety-related incidents within the hour 100% of the time. An example of this was on December 8, when a portion of an underground eight-inch pipeline failed at TransGas' storage cavern facility near Regina, causing the sudden release and subsequent ignition of high-pressure natural gas. The facility's emergency shutdown system was engaged immediately, as designed, and TransGas staff worked closely with first responders to ensure that no employees or members of the public were injured.

The incident was not an unplanned outage because service was maintained to all customers in the area. Nonetheless, it did illustrate the potential dangers inherent in the natural gas transmission business, and the Corporation immediately began investigating the cause of the failure. The investigation concluded the incident was caused by a crack near a weld in a 45° elbow fitting on the approximately 30-year-old pipeline. The section of pipeline was subsequently repaired and other fittings at the Regina Storage Cavern facility were closely examined. A detailed engineering assessment determined the facility was fit to return to service, and after a phased-in restart, the facility was fully operational on December 22.

SASKENERGY SAFE AND RELIABLE OPERATIONS

To help keep the number of unplanned outages per thousand customers to a minimum in 2006, SaskEnergy will complete its comprehensive set of annual system maintenance activities. These include cathodic protection surveys, leak surveys and the ongoing upgrade of traditional equipment such as line heaters.

At the same time, SaskEnergy will enhance the processes it uses to ensure the safe and reliable operation of all distribution system facilities. Computer-assisted data gathering and equipment tracking, for example, will help schedule regular maintenance practices – including system inspections and equipment replacement – more efficiently than ever before. In addition, SaskEnergy will implement a new Facility Outage Work Plan process to minimize customer impact when specific distribution facilities are removed from service for a period of time.

SaskEnergy will also take an active role in determining the recommended maintenance activities for all distribution utilities in Canada. Working with the Canadian Gas Association (CGA) and the Canadian Standards Association (CSA), SaskEnergy will help develop a national set of System Integrity Management Standards that will refine the system integrity practices used by Canadian natural gas distribution utilities. By participating in this process during 2006, the Corporation will build upon current and evolving practices and technologies to develop a comprehensive industry-standard Integrity Management Program for the distribution utility.

Public safety related messaging will be an important means of reducing the number of annual contacts with the pipeline system. In particular, throughout 2006, SaskEnergy will actively promote its *Sask 1st Call* subsidiary as a viable and valuable service both for member companies and for those undertaking excavation projects in the Province.

TRANSGAS SAFE AND RELIABLE OPERATIONS

TransGas risk-based integrity management programs will build on experience from previous years. The integrity management programs, which have been in operation for 10 years, have been effective at managing threats of external corrosion, stress corrosion cracking and mechanical damage.

In-Line Inspection (ILI) is the preferred tool to determine if external corrosion anomalies exist on large-diameter pipelines – a process described in more detail in the following section. The newly developed direct assessment methodology will be used to quantify the amount of external corrosion that exists on smaller-diameter pipelines. Together, the two technologies will provide

TransGas with a comprehensive means of evaluating the future cathodic protection, pipe recoating and replacement requirements for the transmission pipeline system.

TransGas will conduct a review of its Stress Corrosion Cracking (SCC) Program in 2006, as it has been 10 years since the National Energy Board requested that pipeline operators begin searching their pipelines for SCC. This review will align well with the forthcoming Canadian Energy Pipelines Association (CEPA) *Updated SCC Recommended Practices*, a publication that will provide guidance to pipeline operators with respect to the development and management of SCC programs. TransGas will consult the *Recommended Practices* as it updates its manuals on SCC and realigns its programs to fit with the industry standard practices.

To measure performance with respect to managing its ongoing integrity programs, TransGas will develop a comprehensive set of plant integrity performance indicators. Together with the already developed pipeline integrity indicators, these measures will provide a basis on which to evaluate TransGas' system integrity performance compared to that of other CEPA companies.

The mechanical damage prevention program will see continued work in 2006. This will include installing more high tension awareness tape over transmission pipelines in urban centres as well installing above ground signage at select intervals to identify pipeline locations. TransGas will also deliver educational programs designed to increase public awareness of underground facilities.

Because of the pipeline fitting failure in late 2005 at the Regina Storage Cavern facility, TransGas will redirect some of its resources to examine any potential risks in its storage business. This will include stress analysis when conducting storage pipeline condition assessments, and non-destructive inspections to investigate the condition of TransGas wellheads at the Regina Storage Caverns and other storage facilities.

Special Section: Focused on Safety and Reliability

Together, SaskEnergy and TransGas operate one of the largest natural gas pipeline and storage systems under one jurisdiction in North America. Spanning much of Saskatchewan, this system includes approximately 80,000 kilometres of transmission and distribution pipeline, 24 storage caverns, 27 compressor stations, and hundreds of other facilities such as town border stations and metering points.

The resources required each year to operate and maintain such a complex system are substantial. In 2005, the Corporation invested thousands of person-hours and more than $18 million in a multi-faceted system integrity program designed to mitigate risks to pipeline and related infrastructure. This program combined visual inspection, hands-on maintenance, sophisticated technology and proactive public awareness initiatives to help ensure SaskEnergy and TransGas continue to provide safe and reliable service.

External benchmarking is becoming an increasingly important way to evaluate the success of these system integrity activities and the resources required to implement them. TransGas, for example, benchmarks its system integrity processes and results against those of other companies belonging to the Canadian Energy Pipeline Association (CEPA). The latest compiled data from 2004 indicates that TransGas pipeline failure frequencies, kilometres of pipeline inspected using In-Line-Inspection (ILI) tools, and budgets for integrity programs align with the average of the other CEPA member companies.

National benchmarking standards are currently not as well defined for distribution utilities as they are for transmission utilities. In 2006, however, SaskEnergy will work with the Canadian Gas Association (CGA), the Canadian Standards Association (CSA) and other utilities to define a comprehensive new set of distribution system integrity management standards. This will allow the LDC to benchmark itself externally against a new set of industry standards in the future.

In 2005, visual inspection of the Corporation's facilities was again a priority. Each year, the entire transmission pipeline system and approximately 20% of the distribution system are leak-surveyed. For the transmission system, aerial surveys in rural areas are performed by personnel who are skilled in recognizing surface features that indicate the presence of a gas leak or facility encroachment. For the distribution system, ground surveys in rural areas are performed using detection equipment mounted on all-terrain vehicles (ATVs). In urban and other high-density population areas, surveys are completed by personnel on foot carrying portable detection equipment.

During 2005, the entire TransGas transmission and gathering pipeline system was aerial leak-surveyed. In addition, 292 kilometres were re-surveyed by ATV, and 171 kilometres in urban areas were re-surveyed on foot. Two underground pipeline leaks were discovered as a result of these surveys, a number consistent with past years. In each case where a pipeline leak was detected, TransGas excavated the leak site and repaired the pipeline or pipeline component that had failed.

Before the first two storage caverns at the Dodsland natural gas storage facility were put into service, all the above ground piping was hydrostatically tested for leaks. This involved testing water at a pressure of 1,800 pounds per square inch in the new section of pipe to ensure its integrity. Here, a SaskEnergy employee prepares to test the piping at Unity, Sask.

SaskEnergy leak surveyed 12,511 kilometres of main distribution pipeline, as well as 76,387 customer service lines. These surveys detected 98 underground leaks, a number significantly lower than the 143 leaks found in 2004.

In addition, leak surveys were conducted on all of the above- and below-ground piping at eight compressor stations. No significant leaks were discovered as a result of these surveys.

Cathodic protection systems use electric current to mitigate the effects of corrosion on underground facilities. These systems form another important component of the Corporation's integrity program. As in past years, a variety of tests were conducted to ensure the proper functioning of existing cathodic protection equipment. In one process, a test point audit survey was conducted to verify protection levels on the transmission and distribution system at different locations throughout the Province.

In another process called a close interval over-line survey, a contractor on foot used sensitive equipment to verify cathodic protection levels on sections of pipeline deemed to be at increased risk for corrosion. Close interval over-line surveys were conducted on 775 kilometres of TransGas pipeline during the year. This number is expected to increase in 2006 as the Corporation extends these surveys to audit the protection levels of pipelines at TransGas compressor stations.

These surveys revealed that in some of the tested areas, additional cathodic protection facilities were required and in other areas, existing facilities required modifications to maintain protection levels.

SaskEnergy and TransGas tested, maintained and if necessary, replaced cathodic protection facilities at hundreds of sites across the Province in 2005. Pictured here is a new rectifier that was installed to help protect a TransGas pipeline near Hanley.

Direct examinations – measurements and tests used to assess the condition of exposed facilities – are performed each year on above- and below ground TransGas facilities. During 2005, direct examinations were conducted on 47 pressure vessels and 42 piping sections at transmission stations. As a result of these examinations, TransGas repaired two pressure vessels and replaced two piping sections.

In-Line Inspections (ILIs) have become an increasingly important way for the Corporation to assess the integrity of its high pressure transmission pipeline system. Each year, TransGas determines which areas of the system could be most at risk for corrosion or stress-related cracking by using system predictive modelling software that takes into account factors such as a pipeline's age, location, soil environment and maintenance history. Based on this analysis, TransGas conducts ILIs on sections of pipeline deemed to be most at risk for corrosion.

During the ILI process, TransGas crews send a computerized tool through the pipeline to measure wall thickness and detect potential problems such as corrosion, obstructions, or bends in the line. Once the ILI tool has travelled through the section of the pipeline being tested, the data is collected and analyzed to determine what action, if any, is required to maintain the pipeline's safety and reliability.

Before the ILI tool can travel through a pipeline to help assess its integrity, a series of "cleaning pigs" must be sent through to remove any debris that could damage the expensive device. Here, a TransGas employee activates a "cleaning pig" from the Rossmoor Region pipeline that underwent an ILI in September.

In 2005, TransGas conducted ILIs on 12 segments of pipeline totalling 892 kilometres of the transmission system. Direct pipeline examinations were performed at 77 locations throughout the Province, in many cases as the next step after an ILI had been conducted. After analyzing the ILI data and performing direct inspections, TransGas carried out pre-emptive repairs at nine sites.

YEAR	KM	CUMULATIVE PERCENTAGE OF SYSTEM
1998	14	0.1
1999	75	0.7
2000	98	1.4
2001	260	3.0
2002	509	8.0
2003	586	13.8
2004	633	19.2
2005	892	27.1
2006	841 (projected)	34.7
2007	890 (projected)	42.8
2008	780 (projected)	49.9
2009	720 (projected)	56.4
2010	580 (projected)	61.7

By the end of 2010, TransGas expects to have conducted ILIs on a cumulative total of approximately 61% of its pipeline system. This represents the amount of TransGas pipeline that is currently suitable to be inspected by this means. The remaining 39% of the TransGas system is less accessible and inspected by other means such as direct examination.

PIPELINES IN-LINE-INSPECTED BY THE END OF 2005

As part of its system integrity program, in 2006 TransGas will begin conducting follow-up ILIs on sections of pipeline that have already been in-line-inspected once since 1998. TransGas anticipates re-inspecting between 100 and 300 kilometres of pipeline per year in addition to performing scheduled first-time ILIs.

The Corporation uses the PeopleSoft EnterpriseOne (OneWorld) business application to manage its ongoing preventative maintenance program. Over the course of 2005, OneWorld automatically generated more than 11,000 preventative maintenance orders for different work locations across the Province. These work orders helped match available resources with existing workload so SaskEnergy and TransGas staff could efficiently maintain facilities such as compressors, line heaters and town border stations.

By generating automated work orders, OneWorld helps streamline the Corporation's preventative maintenance activities. In response to one of these work orders, the employee pictured here performs routine maintenance on a scrubber that removes impurities from natural gas at the Pugsley compressor station.

To supplement these preventative maintenance activities, in 2006 TransGas will begin developing a Control Systems Improvement Plan to renew emergency shutdown, compressor unit and station control systems. This renewal program will contribute to ongoing system reliability by ensuring that the most up-to-date and supported technology is used to maintain essential facilities.

Promoting public awareness is a key part of ensuring the reliability of a pipeline network and the safety of those who work around it. During 2005 the Corporation undertook a variety of public awareness initiatives to ensure Saskatchewan residents did not adversely affect – and were not adversely affected by – the SaskEnergy/TransGas pipeline infrastructure.

In 2005, the Corporation actively promoted *Sask 1st Call* as an important first step in any construction project. *Sask 1st Call* is a wholly owned subsidiary that operates a streamlined "Call Before You Dig" service for anyone planning to excavate in Saskatchewan. By calling the *Sask 1st Call* toll-free number,

an excavator can speak directly with a Customer Service Representative (CSR) who enters the project location into a screening database. The software then automatically notifies member companies who own underground facilities at the site and are required to perform a line locate.

Since it began operation in 2003, an increasing number of excavators and member companies have begun using *Sask 1 Call*. In 2003, CSRs fielded 49,032 line locate requests, and issued 49,868 notifications to 12 member companies, including SaskEnergy and TransGas. By comparison, in 2005 – *Sask 1 Call's* third year of operation – 74,000 line locate requests resulted in 104,000 notifications to 22 member companies. This level of growth is making *Sask 1 Call* an important means of protecting the public and preventing damage to the Province's underground infrastructure.

Personal communication with groups who work around the SaskEnergy/TransGas system was also a priority in 2005. At open houses and trade shows, for example, TransGas representatives instructed close to 200 firefighters and first responders on safety procedures in the event of a natural gas related emergency. Representatives also spoke to approximately 1,200 delegates at the Saskatchewan Association of Rural Municipalities convention. During the year, TransGas conducted more than 1,800 mailouts and individual visits to urban and rural municipalities, landowners and First Nations. Through the Contractor Safety Awareness Association, the Corporation also provided natural gas safety messaging – including the promotion of *Sask 1 Call* – to 2,732 contractors representing 791 companies.

YEAR	SASKENERGY LINE HITS	TRANSGAS LINE HITS
1998	232	3
1999	200	5
1998	210	4
1999	215	1
2000	196	1
2001	175	2
2002	156	0
2003	175	3
2004	123	1
2005	170	2

Over the past decade, increasing public awareness has helped reduce the damage/annual number of pipeline contacts on the SaskEnergy/TransGas system. That being said, below incident reporting from an informed public can help increase the number of proven incidents in a given year, as was the case in 2005.

Ensuring the safety and reliability of its transmission, storage and distribution infrastructure will always be a priority and an ongoing commitment for the Corporation. TransGas' 2005 System Integrity Management Program, for example, marked the third year of a comprehensive five year strategy. During the year, TransGas invested over $10 million to mitigate the risks to its high pressure pipeline and related facilities. TransGas anticipates investing approximately $10 million per year in 2006 and 2007 as the program places additional emphasis on compressor, meter station and storage facilities. Together with the distribution utility's other planned investments of roughly $8 million per year to maintain the integrity of its infrastructure, this means the Corporation will be devoting approximately one-quarter of its capital budget to continue providing safe and reliable service in the coming years.

Delivering Shareholder Value

OBJECTIVE: Ensure the financial integrity of the organization and increase enterprise value through prudent growth and capital investment.

DELIVERING SHAREHOLDER VALUE – *FINANCIAL INTEGRITY*

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Consolidated debt-to-equity ratio	72/28	68/32	65/35	68/32	68/32	66/34	65/35
Consolidated rate of return on equity (%) (without the effect of the commodity margin)	22.7	21.4	17.7	16.4	14.8	15.0	14.4
Consolidated net earnings before commodity margin ($ millions)	68	70	65	58	56	61	61
Dividends to Crown Investments Corporation ($ millions)	27	70	20	57	51	40	41

Dividends to Crown Investments Corporation are based on consolidated net earnings including the margin on commodity sales. Consolidated net earnings for 2005 – including the commodity margin, were $77 million, resulting in a dividend declared of $29 million.

The owner's return can be measured in terms of the rate of return on equity invested and cash dividends. In addition, preserving the financial integrity of the Corporation protects the owner's investment. The Balanced Perspective utilizes several measures to gauge the Corporation's success at maintaining financial integrity and delivering annual returns to the owner.

Consolidated net earnings from operations, before the effect of the gain on commodity sales, were $65 million in 2005 – $7 million higher than anticipated, but $5 million less than in 2004. As a result, the rate of return on equity for the consolidated entity was approximately 18%, which was 2% higher than the target.

These favourable financial results were driven by strong net sales from gas marketing that more than offset lower-than-expected performance from utility operations. Net earnings from utility operations were below the 2005 target of $29 million primarily due to $8 million lower delivery revenue, $3 million higher operating and maintenance costs, and $1 million higher Saskatchewan taxes. These unfavourable variances were partially offset by $4 million lower interest

and amortization expenses and $2 million higher royalty earnings, translating into earnings from utility operations that were $6 million lower than anticipated. In comparison, 2005 net earnings from utility operations of $23 million were $10 million lower than 2004.

Net sales from gas marketing activities produced strong financial results in 2005, exceeding the expectation of $29 million by $13 million. Bayhurst Gas Limited (Bayhurst) – a wholly owned subsidiary that sells natural gas from a decommissioned storage facility – benefited from sustained high natural gas prices and higher than expected sales volumes. Bayhurst's net earnings from these activities and other gas marketing activities were approximately $9 million higher than expected. Other natural gas marketing activities conducted by SaskEnergy generated net earnings which were $4 million higher than anticipated. Overall, the Corporation's net sales from gas marketing activities were $42 million during 2005, $5 million higher than 2004.

The preceding discussion relates to earnings before the gain on commodity sales. Overall consolidated net earnings in 2005, including the gain on commodity sales, were $77 million. This is approximately $11 million lower than budget and $31 million lower than in 2004. Please refer to the section entitled Statement of Earnings Analysis for a detailed review of overall consolidated results.

Although the Corporation's earnings were above the 2005 target, dividends were below target levels as SaskEnergy did not pay a dividend on the portion of earnings attributable to the Government of Saskatchewan's reimbursement of the Gas Cost Variance Account (GCVA) balance through the Saskatchewan Energy Share. The Saskatchewan Energy Share's effect on the Corporation's 2005 net earnings is further described in the section entitled Critical Accounting Policies and Estimates.

Strong financial performance and the financial effects of the Saskatchewan Energy Share enabled the Corporation to achieve its primary consolidated financial integrity goal – a debt-to-equity ratio of 65% debt and 35% equity.

SASKATCHEWAN
Energy
Share

Announced in November 2005, the Saskatchewan Energy Share provided Saskatchewan residents with short-term assistance with their natural gas costs during the winter of 2005-2006. The Saskatchewan Energy Share also consists of a series of energy conservation programs designed to help customers use less energy and save money over the long term.

OBJECTIVE: Ensure the financial integrity of the organization and increase enterprise value through prudent growth and capital investment.

DELIVERING SHAREHOLDER VALUE – *CAPITAL INVESTMENT*

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Core business*							
- Customer growth ($ millions)	35	34	30	29	28	24	18
- Sustaining infrastructure ($ millions)	39	31	32	39	49	46	42
Non-traditional capital investment in Saskatchewan ($ millions)	-	-	-	3	-	-	-
Investing for Saskatchewan							
- International ($ millions)	8	-	-	1	2	18	12
- Nova Scotia ($ millions)	5	5	5	14	4	7	2

*Core business refers to the primary business of SaskEnergy and its wholly owned subsidiaries including the distribution, transportation and storage of natural gas within the Province of Saskatchewan.

SaskEnergy and TransGas undertake an extensive capital program each year to ensure safe and reliable service, to support the effectiveness and efficiency of operations, and to meet the service requirements of customers. Given the importance of this capital program, SaskEnergy and TransGas have developed a set of measures to monitor and manage performance with respect to both sustaining and growing the Corporation's transmission, distribution and storage infrastructure.

In addition, the Corporation has a business development focus based on the objective of leveraging key skills, resources and competencies in the pursuit of growth opportunities and development of a long-term source of earnings. To this end, the Corporation has set targets to monitor investment activity in non-traditional, extra-provincial and international investments.

CORE BUSINESS – CUSTOMER GROWTH

Capital investment in 2005 to support growth of the Corporation's customer base totalled $30 million, which was $1 million higher than target. This was due in large part to strong natural gas prices during the year which encouraged significant natural gas development activity. TransGas completed 16 customer receipt tie-in projects and three receipt point modifications, which contributed to higher than anticipated capital expenditures of $1 million to expand the transmission system. This receipt-related capital investment is projected to increase natural gas flow onto the TransGas system by approximately 90 Terajoules/day (TJ/d).

Completion of two underground storage caverns at the Asquith natural gas storage facility west of Saskatoon and programs to enhance storage capabilities at other existing facilities were also key components of TransGas' growth-related core capital expenditures during the year. Total 2005 expenditures to expand TransGas' storage capabilities were on target at approximately $12 million.

SaskEnergy installed 3,157 new service connections to its distribution system in 2005. Adjusting for retired services and customer disconnects, this translated into a net total of 1,654 customer additions – approximately 400 less than in 2004, but still above historic levels. These new customers included several medium-to-large commercial operations in both urban and rural areas. The distribution utility invested a total of $31 million to connect new customers and secure increased natural gas distribution loads across the Province. This was comparable to amounts invested in 2004.

CORE BUSINESS – SUSTAINING INFRASTRUCTURE

The Corporation operates a capital-intensive business, and as such, invests significant capital resources annually to maintain and preserve its distribution and transmission infrastructure. Each year, the Corporation rigorously reviews and screens capital projects to ensure that expenditures appropriately address system risks and align with SaskEnergy's and TransGas' goals for safety, reliability, cost effectiveness and customer service.

Throughout 2005, the Corporation made a variety of capital investments to maintain its extensive natural gas infrastructure. One of these projects involved replacing aging above-ground piping and valves at the Pigeon compressor station.

In 2005, capital costs related to sustaining infrastructure were lower than forecast. These savings were the result of lower-than-anticipated requirements for information systems and general plant-related expenditures. In addition, SaskEnergy and TransGas further reduced capital requirements by deferring several low-priority system improvement initiatives until 2006, while still ensuring that critical, high-priority system integrity initiatives were completed as planned. Consequently, the Corporation's 2005 capital expenditure of $32 million to sustain core infrastructure was $7 million below the targeted amount of $39 million.

NON-TRADITIONAL CAPITAL INVESTMENT

Over the course of the year, the Corporation reviewed several possible non-traditional investments within the Province, but decided not to proceed with them in 2005.

INVESTING FOR SASKATCHEWAN

In recent years, select business opportunities have been pursued outside the Province. These investments are forecast to generate additional revenue by building on the Corporation's strongest asset – its employees and their core business expertise.

SaskEnergy International Incorporated (SEII) was formed as a wholly owned subsidiary in 1996 to identify and invest in natural gas-related opportunities abroad. SEII has invested in two natural gas companies – Gas Sur S.A. (Gas Sur) and Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex). To date, SEII has invested $13.6 million for a 30% equity interest in Gas Sur, and $10.7 million for a 40.1% equity interest in Igasamex.

SEII identified the potential for a small incremental investment in Igasamex in 2005; however, this investment has been deferred.

Both Gas Sur and Igasamex performed well operationally in 2005. Gas Sur connected more than 3,000 new customers and increased its natural gas sales to more than 900,000 GJ – 8% higher than the sales volume of the previous year. Igasamex connected six new industrial customers, constructed three new pipelines and signed approximately $1 million in incremental annualized revenues. As a result, both companies were profitable in 2005, with the Corporation's share of these earnings totalling $0.7 million.

Heritage Gas Limited (Heritage Gas) is the Nova Scotia natural gas distribution utility in which SaskEnergy holds a 50.1% interest. In 2005, SaskEnergy invested a further $5 million in Heritage Gas through a combination of loans and equity financing, thereby bringing the Corporation's cumulative investment to $15 million at the end of the year. Of this amount, $6 million comprises cumulative equity investment. This is below the target set for the year, which can be attributed to lower-than-anticipated new customer connections, as well as additional funding provided by the Province of Nova Scotia.

Heritage Gas continues to work at the challenges inherent in developing the franchise in Nova Scotia. One of these challenges is the geological nature of the soil in the region – comprised mainly of rock – which makes it more challenging to develop and install the required natural gas distribution infrastructure. The significant increases and volatility in natural gas prices and higher-than-expected downstream conversion costs have led Heritage Gas to change and adapt its approach to new customer connections.

In 2005, Heritage Gas used a variety of construction methods to expand its natural gas distribution infrastructure. Pictured here, a crew uses a rock wheel trencher to install a section of two-inch polyethylene pipe to serve new customers in Dartmouth. More commonly used construction equipment included backhoes, rock breakers and track-mounted excavators.

Despite these challenges, Heritage Gas achieved some significant results as it continues its transition from an early-stage greenfield business to a fully operational natural gas utility. One of these accomplishments was a successful expansion in Dartmouth, where 20 kilometres of pipeline were added to serve new customers who have committed to over $1 million in incremental revenue. Heritage Gas was also successful in expanding to Amherst in September, 2005.

In addition, Heritage Gas secured a loan for $7.6 million from the Province of Nova Scotia Gas Market Development Fund in August, 2005. This loan is interest-free until December 31, 2006 and the interest-free period can be extended if certain revenue thresholds are not met by that time. The loan agreement includes a provision to allow $2 million of the loan principal to be forgiven upon the achievement of a specified level of capital investment. While this target is anticipated to be achieved, formal confirmation is expected in 2006.

FINANCIAL INTEGRITY

The Corporation posted strong financial results in 2005 following a successful year of earnings in 2004. Despite the volatility of the natural gas market and its impact on earnings year-over-year, the consolidated rate of return on equity exceeded the target for 2005. Looking forward to 2006 and beyond, the Corporation anticipates continued strong performance with annual net earnings of approximately $60 million.

In 2006, the Corporation will create value for the owner by generating industry-comparable returns on utility operations, paying dividends to the owner, and maintaining a prudent long-term capital structure. From 2006 to 2008, the Corporation expects to pay aggregate dividends to the owner in excess of $132 million.

SaskEnergy and TransGas are committed to maintaining cost-effective operations and providing value-added services to customers. This commitment is reflected through ongoing programs to control costs and implement innovative practices designed to improve the efficiency of service delivery. These efforts have a favourable impact on the rates charged for providing service to both TransGas and SaskEnergy customers.

In January, 2006, TransGas will implement a 2.6% rate decrease – the third in three years – which will provide an ongoing benefit to customers, including SaskEnergy. This reduction will be possible because of strong flow volumes on the TransGas system and effective cost-management practices.

Like TransGas, SaskEnergy has managed to contain costs and maintain stable rates for its customers. SaskEnergy does not plan to increase delivery rates in 2006, which would become the ninth consecutive year without an increase. SaskEnergy's last delivery rate increase – a modest one of 2.3% – occurred in 1997. SaskEnergy has been able to maintain these service rates through efforts to reduce borrowing costs as well as operating and maintenance expenses. Cost savings are also made possible by natural gas transportation rate decreases implemented by TransGas.

CAPITAL INVESTMENT

SaskEnergy's capital requirements each year are carefully evaluated to ensure they are consistent with the requirements of the operating system and corporate objectives. They are also prioritized with respect to each individual project's risk assessment, as well as the relative costs and benefits associated with any expenditures. This process will continue in 2006.

The 2006 capital program identifies capital expenditure requirements of approximately $77 million to support both the growth and maintenance of the Corporation's distribution and transmission pipeline systems. Major capital work will be directed to storage development activities, as well as system expansions to accommodate shipper needs and new distribution customers.

With an extensive infrastructure throughout the Province including more than 80,000 kilometres of pipeline, ensuring safe and reliable service is a major priority for SaskEnergy and TransGas. To ensure the safety and reliability of service, the Corporation will commit over 30% of the capital budget in 2006 to sustaining and improving transmission- and distribution-related facilities and infrastructure.

INVESTING FOR SASKATCHEWAN

Gas Sur and Igasamex are both progressing in terms of connecting new customers and achieving greater market presence. SEII anticipates that in 2006 its proportionate share of earnings from its two investments will be sufficient to recover operating costs and generate a positive contribution to consolidated net earnings – the first year in which this will have been achieved. In the coming year, SEII will work closely with its investment partners in both Chile and Mexico to continue to develop and grow these investments.

SaskEnergy anticipates its proportionate share of further investment in Heritage Gas to be approximately $4 million for 2006 as the company expands its natural gas distribution system in Nova Scotia. The next few years will involve significant growth as Heritage Gas plans for new expansion into Halifax and further expansion in Dartmouth and Amherst.

LOOKING FORWARD

SaskEnergy's strategic financial direction is focused on ensuring the achievement of forecast financial results. Prudent and efficient management of resources, a strong focus on employees and the customer, and sustained natural gas transportation and distribution volumes will enable the Corporation to achieve these results while ensuring high levels of customer satisfaction and competitive rates. SaskEnergy is committed to meeting superior performance standards, and remains focused on performance to ensure it delivers both value and service to its customers, its owner and the people of Saskatchewan.

Financial and Operating Achievements

The consolidated statement of net earnings segregates income into earnings from operations and gains and losses on commodity sales. The earnings from operations are generated by those business activities operated for the purpose of earning a return for the Corporation. However, commodity sales, which comprise a significant source of revenue, are specifically designed to only recover the related cost of gas, so that over the long term, SaskEnergy neither realizes a gain nor incurs a loss on commodity sales to distribution utility customers. As a result, each of these two activities is managed to achieve specified objectives unique to its business purpose.

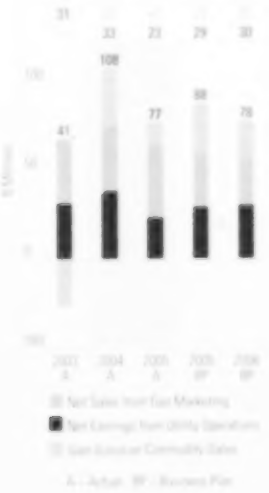
SUMMARY

Consolidated net earnings of $77 million for 2005 were $31 million below the $108 million for 2004.

Net earnings from operations of $65 million in 2005 were $5 million less than the $70 million earned in 2004. The increased net sales from gas marketing of $5 million were more than offset by lower delivery revenue of $6 million and higher operating expenses of $5 million which included one time charges that will reduce future costs.

The 2005 gain on commodity sales of $12 million was $26 million lower than the gain of $38 million in 2004. When natural gas prices reached record levels in the fall of 2005, the Government of Saskatchewan introduced the Saskatchewan Energy Share. Funds provided to SaskEnergy from the Saskatchewan Energy Share lowered the cost of gas and effectively shielded consumers from the full impact of rising energy prices.

CONSOLIDATED NET EARNINGS



The following is a summary of the financial results by major operating activity:

- **SaskEnergy – Distribution Utility**

  The variability in net earnings from the operations of the distribution utility is caused primarily by changes in the volumes consumed by customers to heat their premises during the winter heating load season. The trend of reduced consumption through energy efficiency measures and warmer winter weather in 2005 compared to 2004, reduced distribution volumes and resulted in net earnings from utility operations of $5.6 million. This was $9.7 million below 2004 net earnings from utility operations of $15.3 million.

- **TransGas – Transportation and Storage Utility**

  TransGas' net earnings were $21.4 million in 2005 compared to $26.8 million in 2004. The contracted volumes of natural gas transported and stored by TransGas in 2005 were consistent with 2004. However, a 3.4% rate decrease for transportation shippers effective November 1, 2004 lowered revenue by $4 million. In addition, operating and maintenance expenses were $3 million higher than 2004 primarily due to a one time charge to effectively lower future operating, maintenance and amortization expenses. This was partially offset by incremental storage revenue of $2 million generated from a new storage facility.

- **Net Sales from Gas Marketing**

  Bayhurst Gas Limited generates net sales from gas marketing by selling natural gas from a decommissioned storage facility. SaskEnergy also contributes to this business activity through competitive gas sales. Both the volume of natural gas sold and sales prices were higher in 2005 than in 2004. As a result, net sales from gas marketing contributed $42 million to net earnings for 2005, which was $5 million higher than the $37 million earned in 2004.

- **Wholly Owned Subsidiaries – Operations of Natural Gas Related Businesses in Saskatchewan**

  Net earnings from Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation and the royalty income from Bayhurst Gas Limited totalled $7 million in 2005, which was $1 million higher than 2004.

- **Wholly Owned Subsidiaries – Investments in and Operations of Natural Gas Related Businesses outside Saskatchewan**

  SaskEnergy International Incorporated and SaskEnergy Nova Scotia Holdings Ltd. have invested in natural gas businesses located in Chile, Mexico and Nova Scotia. Swan Valley Gas Corporation operates a distribution utility in Manitoba. Net earnings from these wholly owned subsidiaries were $0.9 million for 2005, compared to $0.5 million in 2004. The continued successful expansion of the developing natural gas businesses in Chile, Mexico and Nova Scotia were the primary drivers for the increased net earnings in 2005.

- **Gain (Loss) on Commodity Sales**

  Commodity revenue is a function of the volume of natural gas sold and SaskEnergy's commodity rate. During 2005 the commodity rate charged to customers was $6.97/Gigajoule (GJ) until November 1, when it was increased to $7.95/GJ. The effect of the higher commodity rate was more than offset by lower volumes sold (for reasons noted above), resulting in lower commodity revenue of $376 million compared to $387 million in 2004.

Cost of gas sold is also affected by the volume of natural gas consumed and the purchase price for the gas. As noted, the volumes sold were lower in 2005 than 2004. Purchase prices for natural gas were higher in the fall of 2005 primarily due to the effects of Hurricanes Katrina and Rita. The net effect of the changes in volumes and purchase prices was that the cost of gas sold rose to $418 million in 2005, which was $69 million higher than the $349 million in 2004.

PURCHASE PRICE OF NATURAL GAS COMPARED TO SASKENERGY'S COMMODITY RATE

The effects of the increase in the cost of gas were mitigated by a commodity rate increase on November 1, 2005 and $54 million of funding from the Saskatchewan Energy Share, resulting in an overall gain on commodity sales of $12 million for 2005.

It should be noted that gains or losses from commodity sales are generated from the required year-end accounting treatment of financial instruments and changes in the balance in the Gas Cost Variance Account. SaskEnergy, in accordance with principles followed by other Canadian natural gas utilities, sets its commodity rate to recover its anticipated future gas costs. This means gains and losses eventually negate one another over time.

For a discussion of SaskEnergy's consolidated actual year-over-year performance, refer to the section entitled Statement of Earnings Analysis beginning on the following page.

Statement of Earnings Analysis

The following is an analysis of SaskEnergy's 2005 consolidated financial results.

DELIVERY REVENUE

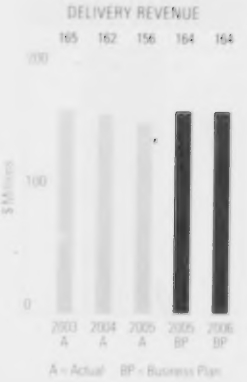
Delivery revenue is primarily driven by the volume of natural gas delivered to residential, farm, commercial and industrial customers in Saskatchewan. The majority of SaskEnergy's distribution customers consume natural gas for heating purposes. As a result, the volume of natural gas distributed is sensitive to variations in the weather, particularly through the prime heating load season from November to March.

Delivery revenue totalled $156 million for 2005, which was $6 million less than 2004. The primary driver of the reduced revenue was the warmer winter weather experienced during the prime heating load season. Weather, as measured by heating degree days, averaged 4% warmer than 2004. As a result, the year-over-year change in average heating load season temperatures negatively impacted the volume of natural gas delivered in 2005.

Delivery revenue also includes revenue earned from the addition of new customers and service fees designed to recover costs incurred in providing services to specific customers. The revenue in these categories in 2005 was consistent with 2004.

In 2005, 1,654 new customers (net of service retirements) were added, contributing $1 million in incremental delivery revenue. Strong customer growth in Regina and Saskatoon was somewhat offset by declines in rural areas within the Province.

Customer interest in high-efficiency natural gas space heating and other energy conservation efforts continued to lower the average consumption per customer (excluding the impact of weather). This trend is anticipated into the future as SaskEnergy, through its own initiatives and working within the Provincial Government's Saskatchewan Energy Share, helps customers manage their energy consumption for space heating. As well, members of the SaskEnergy Network and SaskEnergy Commercial Network perform high-efficiency equipment installations for commercial use and respond to increased consumer interest in the purchase and installation of non-traditional appliances.



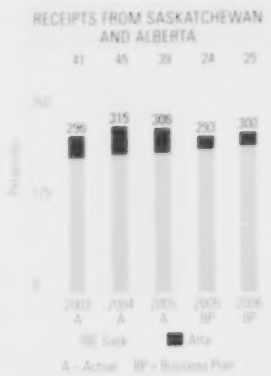
SaskEnergy

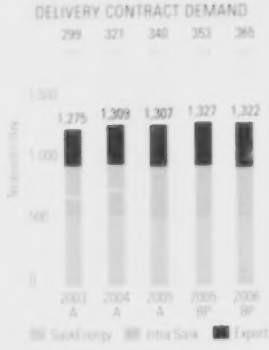
TRANSPORTATION AND STORAGE REVENUE

During 2005, combined transportation and storage revenue was $88 million, consistent with 2004. An increase in storage revenue of $2 million was equally offset by a decrease of $2 million in transportation revenue. The decrease in transportation revenue compared to 2004 was primarily due to transportation rate reductions on January 1, 2004 (2.0%) and November 1, 2004 (3.4%), which remained in effect throughout 2005. Incremental revenue generated from higher receipt volumes throughout 2003 and 2004 enabled TransGas to pass these benefits on to shippers through rate reductions.

Natural gas well drilling in Saskatchewan continued at a strong pace during the year as producers responded to historically high prices for natural gas. During 2005, there were 1,737 natural gas wells drilled, which was the fourth-highest number of natural gas wells drilled in the Province's history. This compares to 1,884 in 2004 (the second-highest) and to 2,294 in 2003 (the all-time record). The increased drilling has contributed incremental production volumes and sustained flows on the transmission system. Increased exploration efforts were still evident in 2005, likely leading to more new natural gas discoveries during 2006.

On December 22, 2005, the amount of Saskatchewan natural gas transported onto TransGas' transmission system achieved a new daily record of 785 Terajoules/day (TJ/d). Saskatchewan natural gas transported on that day was enough to heat nearly 6,200 homes for an entire year. This surpassed the previous record of 772 TJ/d set on April 4, 2004. A significant contributor to these record-breaking natural gas field receipts was the natural gas production in the Shackleton area of the Province which has now surpassed 140 TJ/d.





Transportation revenue is determined mainly by the capacity contracted by shippers for natural gas receipts and deliveries onto the pipeline system. Transportation revenue for 2005 was $80 million compared to $82 million in 2004. Although volumes were relatively consistent between 2005 and 2004 as production continues from recent natural gas developments within the Province, the rate reduction decreased year-over-year transportation revenue.

As anticipated, storage revenue increased during 2005 from incremental contracting for two of the four new storage caverns near Asquith. Accordingly, storage revenue was $8 million in 2005, $2 million higher than 2004.

TransGas forecasts strong transportation revenue in 2006 as receipt volumes continue to flow from new natural gas-producing areas. Customers will benefit from the increased throughput on the transmission pipeline system and cost-containment initiatives which resulted in transportation and storage rate reductions of an average 2.6% effective January 1, 2006.

TransGas

NET SALES FROM GAS MARKETING

Net sales from gas marketing are generated from natural gas sales from a decommissioned storage facility and competitive gas sales activities to earn a margin.

Natural gas is being produced for sale from a storage facility in west-central Saskatchewan which is no longer considered an operational commercial storage asset. In addition, the Corporation leverages its existing storage capacity to take advantage of opportunities that arise in the open market to earn a margin.

The Corporation engages in gas marketing activities to maximize use of the natural gas distribution utility's contracted transmission and storage capacity during off-peak periods. To fully utilize its contracted capacity, SaskEnergy may purchase and sell natural gas in the open market to earn a margin. SaskEnergy also competes to supply natural gas to larger end use customers in Saskatchewan through non-regulated contract sales.

Net sales from gas marketing in 2005 were $42 million. This represents a $5 million increase over 2004 and is primarily due to greater sales volumes and higher selling prices.

REVENUE COLLECTED FOR MUNICIPALITIES

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect and remit revenue collected on behalf of specified urban municipalities. These municipal payments are received from customers and reported on the statement of earnings as revenue with an equal and offsetting expense. The revenue collected for municipalities in 2005 was $28 million, $4 million higher than 2005.

OTHER REVENUE

The Corporation owns a gross overriding royalty on approximately 450 natural gas-producing properties located in Saskatchewan and Alberta whereby it receives payments in accordance with the terms and conditions of the royalty interest. The 2005 royalty earnings were $6 million, compared to $5 million in 2004, due to both higher sales volumes and prices during the year.

OPERATING AND MAINTENANCE

Operating and maintenance expenses were $123 million in 2005, compared with $118 million in 2004.

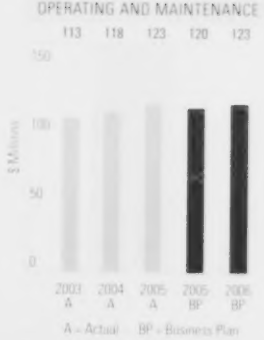
Together, SaskEnergy and TransGas have an extensive distribution and transmission system throughout the southern half of the province consisting of more than 80,000 kilometres of pipeline. This system – which operates in extreme weather conditions and in all types of terrain – requires substantial monitoring and maintenance each year so the Corporation can fulfill its primary objective of providing safe and reliable service.

OPERATING AND MAINTENANCE
2005

To provide this safe and reliable service, SaskEnergy and TransGas require a workforce of approximately 1,000 employees. As a result of its labour-intensive nature, 60% of the Corporation's operating and maintenance expenses, or $73 million, are labour costs plus future employee benefit costs such as pensions and other retirement benefits.

As a result of changes brought about by the renegotiated Collective Bargaining Agreement, during the year, SaskEnergy accelerated the amortization of the future employee benefit costs. This change, in combination with other initiatives, resulted in a one-time charge against earnings of $3.7 million which will be offset by reductions in future expenses.

OPERATING AND MAINTENANCE



A – Actual BP – Business Plan

The Corporation has close to 100,000 horsepower of compression and constantly monitors the optimum operational configuration of these compressor units. During 2005, two units were removed from operations, thereby lowering future operating, maintenance and amortization expenses. As the estimated market value of these units was less than the carrying value, there was a one-time charge of $3.5 million to expenses.

To satisfy customer requirements for delivery of natural gas from storage and to reduce operating costs of its underground storage facilities, TransGas periodically buys and sells natural gas on the open market. In 2005, these transactions effectively lowered storage operating expenses, contributing to the overall favourable transportation and storage expense by approximately $2.4 million.

Despite additional cost pressures due to higher natural gas rates, the Corporation worked with customers in 2005 to reduce bad debts by $1.0 million over the previous year.

Higher costs associated with the operation of corporate vehicles and compressor stations contributed to higher costs of $1.3 million compared to the previous year.

INTEREST

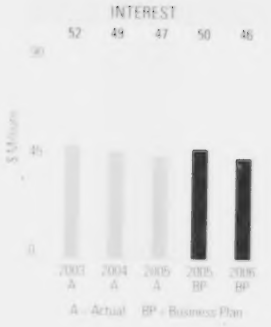
Interest expense of $47 million for 2005 was $2 million lower than 2004 primarily as a result of lower interest on short-term debt and higher sinking fund earnings. Outstanding long-term debt balances (excluding sinking funds) in 2005 declined by $26 million as the Corporation repaid $101 million of debt having an average interest rate of 8.4% and issued $75 million of debt having an average interest rate of 4.5%. The new long-term debt was issued in May and June to take advantage of favourable capital market conditions, while most of the debt matured in December. Consequently, the average outstanding debt balance in 2005 was approximately $60 million higher than the average outstanding debt balance in 2004. As a result, long-term interest expense was higher in 2005 than 2004. This higher interest expense on long-term debt was more than offset by lower interest expense on short-term debt (due to lower short-term debt balances). Sinking fund earnings were $1.5 million higher in 2005 than in 2004 due primarily to gains realized on the investments in the Corporation's share of sinking funds held with the Province of Saskatchewan.

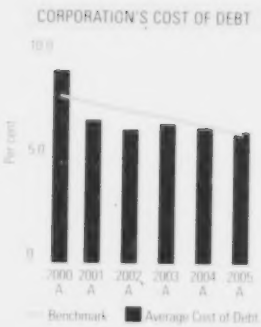
AMORTIZATION

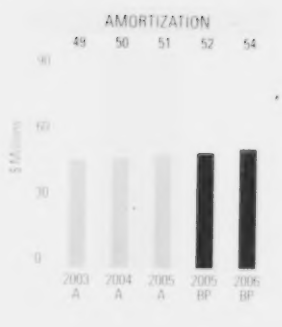
Amortization of $51 million in 2005 was $1 million higher than in 2004. The increase in amortization expense was due to increased customer tie-ins onto the transmission system, additional computer purchases and the acquisition of other assets that were placed in service for all of 2005.

PAYMENTS TO MUNICIPALITIES

In accordance with the provisions of *The SaskEnergy Act*, the Corporation is required to collect and remit payments to specified urban municipalities. Payments to municipalities include grants in lieu of property taxes and payments based on the value of natural gas transported on customers' behalf. The payments to municipalities in 2005 were $28 million, $4 million higher than 2004.







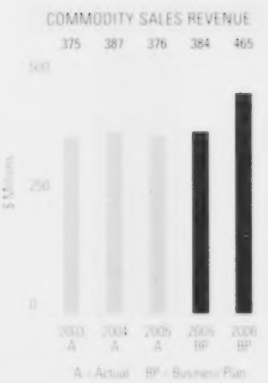
SASKATCHEWAN TAXES

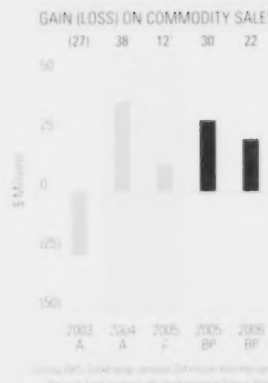
The Corporation makes payments to the Province in the form of corporate capital taxes on capital employed. Payments also include mitigation payments and property taxes. The combined amount of these Saskatchewan taxes was $7 million which was $1 million higher than 2004.

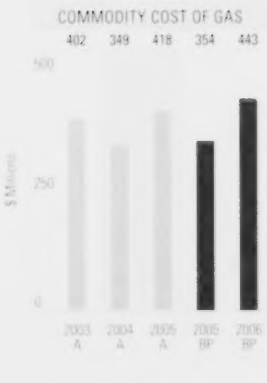
GAIN (LOSS) ON COMMODITY SALES

Similar to other natural gas utilities in Canada, SaskEnergy provides a service whereby it purchases natural gas on behalf of customers and sells it to them on demand. The rate SaskEnergy charges customers for the natural gas commodity is regulated by the Provincial Cabinet.

SaskEnergy designs its commodity rate so that over the long term, the Corporation neither realizes a gain nor incurs a loss on the sale of natural gas to distribution utility customers. As a result, for financial reporting purposes, commodity sales revenue and the related commodity cost of gas are not included in net earnings from operations.







Commodity rates are set on a periodic basis, whereas natural gas purchase prices are subject to monthly price volatility. As a result, SaskEnergy may experience a gain or loss on commodity sales within any reporting period. From January to October 2005 (prior to the introduction of the Saskatchewan Energy Share), SaskEnergy incurred a loss of $7 million on commodity sales as the cost per Gigajoule exceeded the $6.97/GJ commodity rate charged to customers.

In response to record-high natural gas prices in the fall of 2005, the Government of Saskatchewan introduced the Saskatchewan Energy Share. On November 7, 2005, a $123.9 million appropriation was approved in the General Revenue Fund for the specific purpose of reducing SaskEnergy's cost of natural gas, thereby benefiting consumers through lower commodity rates. In accordance with the terms of the Saskatchewan Energy Share, SaskEnergy was eligible for funding of $31.7 million to pay for under-recovered natural gas costs incurred prior to October 31, 2005. For November and December 2005, SaskEnergy received a further $21.9 million for the purpose of capping the natural gas commodity rate at $7.95/GJ.

Changes in the market value of certain financial instruments used to hedge the purchase price of natural gas are required to be included in the current year's cost of gas. The net effect of the change in market value of these financial instruments in 2005 was to increase the cost of natural gas sold by $15 million. In 2004 the change in market value of these instruments was a decrease in the cost of gas sold of $11 million. Changes in market value are not necessarily indicative of the final settlement amounts.

The foregoing, taken together, resulted in a gain on commodity sales of $1.2 million for 2005.

Wholly Owned Subsidiaries

BAYHURST GAS LIMITED (BAYHURST)

In west-central Saskatchewan (an area referred to as Beacon Hill), Bayhurst owns an underground natural gas storage facility which is in the process of being decommissioned. Bayhurst also owns a gross overriding royalty on approximately 450 gas-producing properties located in Saskatchewan and Alberta, and receives a royalty equal to 4.5% of the gross revenue on natural gas sold from these properties. As a result, Bayhurst has two primary sources of earnings: margins on sales of natural gas and royalty income.

The decommissioning process of the Beacon Hill storage facility involves producing natural gas from the facility and selling it in the open market. During 2005, sales of natural gas, less related expenses, provided net revenue of $31.2 million compared to $24.0 million in 2004. Both the volume of natural gas sold and sales prices were higher in 2005 than the previous year.

In 2005, Bayhurst earned $6.2 million in royalty income, which was $0.8 million higher than the $5.4 million earned in 2004. Both the volume of natural gas sold and sales prices for the natural gas were higher in 2005, producing the higher royalty income.

Overall, high natural gas prices and production volumes throughout 2005 led to a strong financial performance for Bayhurst. Net earnings for 2005 were $37.4 million, totalling $8.0 million more than the $29.4 million earned in 2004.

MANY ISLANDS PIPE LINES (CANADA) LIMITED (MIPL)

MIPL owns 14 individual short-haul transportation pipelines that interconnect Saskatchewan with Alberta, Manitoba, Montana and North Dakota. The interprovincial and international transportation of natural gas require MIPL's operations to be regulated by the National Energy Board.

MIPL's net earnings for 2005 of $0.3 million were $0.3 million higher than 2004 due to higher transportation revenue earned. The earnings in 2004 were lower due to a disposal during that year.

SWAN VALLEY GAS CORPORATION (SVGC)

SVGC owns and operates a natural gas distribution system and a transportation pipeline in the Swan Valley area of west-central Manitoba. The operations of SVGC are regulated by the Manitoba Public Utilities Board (MPUB). The distribution system serves 233 customers located primarily in the town of Swan River, the largest customer being an oriented strand board facility owned and operated by Louisiana Pacific. SVGC earns revenue by providing delivery service.

Similar to SaskEnergy, SVGC also sells natural gas to its distribution system customers on the basis that SVGC will neither realize a gain nor incur a loss on the sale of the commodity. However, in any particular year, due to fluctuating natural gas purchase prices, SVGC may record a gain or loss on the sale of the commodity. SVGC will subsequently apply to the MPUB to either recover or refund these amounts through adjustments to future rates.

SVGC recorded positive net earnings in 2005 compared to a loss of $36 thousand in 2004. In 2004, SVGC incurred a loss of $117 thousand on the sale of natural gas to distribution system customers. During 2005, SVGC received approval to increase its commodity rates and as a result the loss on commodity sales was reduced to $31 thousand. This loss on commodity sales was more than offset by earnings of $56 thousand from the distribution system, resulting in net earnings for 2005 of $25 thousand.

In December 2005, SVGC applied to the MPUB for an increase in both its commodity and delivery rates. The MPUB subsequently approved increases to both rates effective February 1, 2006.

SASKATCHEWAN FIRST CALL CORPORATION (*SASK 1ST CALL*)

Sask 1st Call was established specifically for safety purposes to streamline the process by which landowners, contractors or other excavators can request line locates to determine the location of underground facilities in Saskatchewan. Each time it receives a request to determine the location of underground facilities, *Sask 1st Call* charges a fixed fee to the relevant participating agency. *Sask 1st Call* is designed to operate on a break-even basis, so the fixed fee is designed only to recover operating costs. *Sask 1st Call* utilizes the staff and resources of SaskEnergy to operate the facility location services.

In 2005, *Sask 1st Call* received approximately 20,000 calls from excavators to request assistance in determining the location of underground facilities. The corresponding charges to participating agencies in turn generated $417 thousand in revenue for *Sask 1st Call*, consistent with the $425 thousand in revenue for 2004. Expenses of $407 thousand for 2005 were $63 thousand higher than 2004. In 2004, *Sask 1st Call*'s expenses were adjusted downward to recognize start-up costs incurred in 2003 that would not be recovered from participating agencies.

SASKENERGY NOVA SCOTIA HOLDINGS LTD. (SNSHL)

SNSHL holds a 50.1% equity interest in Heritage Gas Limited (Heritage Gas). The remaining 49.9% ownership interest is held by Scotia Investments Limited (25.0%) and AltaGas Utility Holdings (Nova Scotia) Inc. (24.9%).

Heritage Gas Limited is engaged in the distribution and sale of natural gas in the Province of Nova Scotia and its operations are regulated by the Nova Scotia Utility and Review Board (NSUARB).

Heritage Gas was awarded the franchise right in 2002 to distribute and sell natural gas in six counties in Nova Scotia. Accordingly, during 2005 Heritage Gas was engaged in the continued development of its new franchise. Over the course of the year, Heritage Gas expanded its customer base from more than 100 activated customers at the end of 2004 to 369 at the end of 2005. In addition, during the year Heritage Gas installed 506 service lines and a total of 673 customers signed Distribution Service Agreements.

Continued expansion of the pipeline system within Dartmouth and the new connection to Amherst resulted in capital expenditures of $17.3 million during 2005. To December 31, 2005, Heritage Gas had invested $34.3 million in its distribution pipeline system.

To the end of 2005, the three shareholders had provided the majority of the funding for the development and growth of Heritage Gas. SNSHL had invested its proportionate share through equity and loans. As at December 31, 2005, SNSHL had invested equity of $6.1 million and made interest-bearing loans to Heritage Gas of $8.9 million.

Another source of funding for Heritage Gas was secured in August 2005 when the Province of Nova Scotia's Gas Market Development Fund provided Heritage Gas with $7.6 million. The purpose of the funding is to assist Heritage Gas in developing a Nova Scotia market for the natural gas produced from offshore reserves. The funding consisted of a $5.6 million loan and $2 million as a contribution in aid of facility construction.

A total of 140,000 GJ were distributed to Heritage Gas customers during 2005, compared to 14,000 GJ in 2004. This resulted in distribution revenue of $465 thousand for 2005, which was an increase of $396 thousand from $69 thousand in 2004.

Similar to other Canadian natural gas utilities, Heritage Gas sells natural gas to its customers with the expectation that it will neither realize a gain nor incur a loss on the sale of the commodity. During 2005, Heritage Gas recorded $1.7 million in revenue from the sale of natural gas. This amount was $29 thousand less than the cost of natural gas sold. The $29 thousand will be recovered from customers through future rate adjustments.

Heritage Gas has approval from the NSUARB to utilize a Revenue Deficiency Account (RDA). The RDA accumulates the difference between actual distribution revenue and the amount that would be required to earn the approved rates of return. The amount in the RDA was $5.4 million as at December 31, 2005, compared to $2.1 million at the end of 2004. The balance in the RDA will be recovered from customers over a period of years when the actual distribution revenue exceeds the revenue required to earn the approved rates of return.

Through the use of the RDA, Heritage Gas recorded net earnings in 2005 of $1.5 million, an increase of $0.6 million over 2004. Accordingly, SNSHL's net earnings for 2005 were $1.0 million, compared to $0.6 million in 2004.

SASKENERGY INTERNATIONAL INCORPORATED (SEII)

SEII holds a 30% equity interest in a natural gas distribution company in Chile and a 40.1% equity interest in a natural gas transmission company in Mexico. SEII's revenue is primarily derived from its proportionate share of investment earnings from these two companies. Expenses include governance and new business development costs as well as an allocation of corporate costs. Overall, SEII's loss of $0.1 million in 2005 was similar to 2004 ($0.1 million). During 2005, SEII's share of the earnings from its two investments was $0.7 million. Continued growth by its two international investments has positioned SEII to achieve profitability in 2006.

As of December 31, 2005, SEII's two equity investments were as follows:

- **Gas Sur S.A. (Gas Sur)**
  Gas Sur was created to capitalize on the introduction of natural gas to the 8th region of Chile. Natural gas is an energy alternative that is safer, more convenient and more economical than propane, which was the preferred energy source prior to the introduction of natural gas. Natural gas continues to have a competitive price advantage over propane.

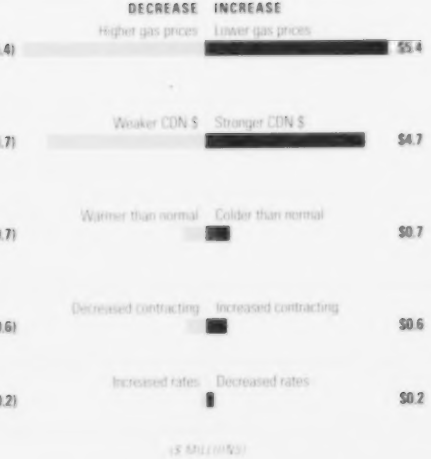
  Gas Sur had a strong year in 2005, connecting more than 3,000 new customers while recording net earnings of $1.4 million ($1.3 million 2004). In 2005, Gas Sur sold more than 900,000 GJ of natural gas, an 8% increase over 2004. Gas Sur is forecast to capture an increase in market share and expand its customer base in 2006.

- **Integrated Gas Services de Mexico, S. de R.L. de C.V. (Igasamex)**
  SEII holds a 40.1% equity interest in Igasamex, a growing Mexico City-based company which provides natural gas transmission services to Mexico's industrial sector. At the end of 2005, Igasamex was flowing natural gas on 21 pipeline laterals and served 75 industrial customers across a wide range of industries, including the textile, automotive, food processing, pulp and paper and consumer products sectors. In 2005, Igasamex had net earnings of $1.5 million, a $1.1 million improvement over 2004 ($0.4 million). Igasamex plans to expand its natural gas service to Mexico's industrial sector in 2006.

Sensitivity Analysis

SaskEnergy's financial results are sensitive to changes in a number of key factors. The following are the factors that can cause the greatest variability in earnings:

DESCRIPTION OF FACTOR	FACTOR	CHANGE(1)	IMPACT ON ANNUAL NET EARNINGS
Natural gas prices fluctuate in the market and can affect earnings if there is a change in the market price per Gigajoule with no accompanying change to SaskEnergy's approved commodity rates.	Natural gas prices	$0.10 change per Gigajoule	$(5.4)
Foreign exchange can affect earnings as a change in value of Canadian currency relative to United States currency impacts natural gas prices in Canada. This in turn may affect commodity purchase costs incurred by SaskEnergy.	Foreign exchange impact on natural gas prices	$0.01 change to foreign exchange rates	$(4.7)
Winter weather fluctuations can affect earnings. Revenue forecasts are based on the assumption of normal winter weather defined as the average weather experienced over the last thirty years.	Winter weather	1% change in winter weather	$(0.7)
TransGas receipt contracted volumes are affected by the capacity contracted by shippers for the transportation of their natural gas.	TransGas receipt contracted volumes	1% change to contracted levels	$(0.6)
Short-term interest rates affect the cost of short-term borrowing.	Short-term interest rates	0.25% change in short-term interest rates	$(0.2)



The above sensitivities are intended to be illustrative of the relationship between the factors and financial performance and are not intended to reflect the likelihood of this variability.

Liquidity and Capital Resources

SaskEnergy provides essential infrastructure services which are expected to provide a stable flow of cash from operations over the long term. In the short term, variability in cash flows is caused primarily by volatility in purchase prices for natural gas and SaskEnergy's ability to recover natural gas cost increases from customers through higher rates. However, through the Gas Cost Variance Account mechanism, natural gas costs that are not recovered in one year may be recovered in subsequent years. Consequently, over the long term, cash flows associated with the procurement and sale of natural gas should be equal and offsetting.

SaskEnergy has authority to borrow up to $400 million by way of temporary loans from the Province of Saskatchewan's General Revenue Fund. This line of credit is available upon relatively short notice and is critical in managing the liquidity risk associated with buying natural gas in a market characterized by high price volatility. Natural gas prices can increase substantially over a short period of time and increase the cost of gas purchased. While rates are designed to recover these costs, a sudden increase in natural gas costs may increase cash outflows over the short term. For example, in 2005 SaskEnergy purchased approximately $986 million of natural gas for distribution utility customer sales and competitive gas sales, which represents the largest single expenditure during the year.

Due to the nature of SaskEnergy's distribution utility business, cash flows tend to be cyclical as winter weather affects revenue, while natural gas purchase volumes occur equally throughout the year. Consequently, cash receipts tend to exceed cash expenditures from December to May, while cash expenditures tend to exceed cash receipts from June to November. As a result, SaskEnergy relies on temporary loans from the Province of Saskatchewan to finance natural gas injections into storage during the summer. These loans are repaid between December and May as customers pay for natural gas consumed for heating purposes during the winter months.

SaskEnergy's access to long term capital is strengthened by its ability to borrow debt through the Province of Saskatchewan. All of SaskEnergy's outstanding long-term debentures are owed to the Province of Saskatchewan. As SaskEnergy's borrowing requirements represent a small portion of the Province's total financing activities, and the credit capacity of the Province remains strong, SaskEnergy continues to have sufficient access to long-term capital to finance its current and anticipated capital expenditures. In addition, SaskEnergy's debt-to-equity ratio of 65% debt, 35% equity is comparable to industry standards and provides SaskEnergy with sufficient financial flexibility to protect the financial integrity of the shareholder's investment.

During 2005, SaskEnergy generated $119.0 million of cash from operations. The largest sources of cash from operations were:

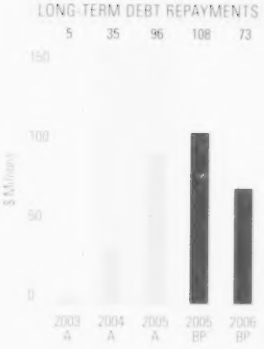
($ Millions)	
Transmission and Storage Operations	$ 51.7
Gas Marketing Activities	36.4
Distribution Utility	34.3

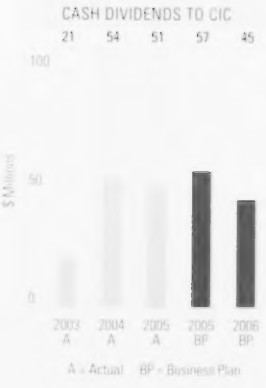
Transmission and storage operations continue to be an important source of cash for SaskEnergy. Since 2003, this business has contributed approximately $157.2 million to consolidated cash flow. It is anticipated that this performance will continue in the future.

Gas marketing activities, conducted through SaskEnergy's wholly owned subsidiary, Bayhurst Gas Limited, and the distribution utility, contributed $36.4 million in net cash in 2005. It is expected that this cash flow will decline over each of the next five years as natural gas production from Bayhurst Gas Limited's decommissioned natural gas storage facility declines.

Distribution utility cash flows were improved by the Province of Saskatchewan's Saskatchewan Energy Share. Through the short-term assistance component of the Saskatchewan Energy Share, SaskEnergy receives payments from the Province to reduce the impact of higher natural gas costs on Saskatchewan consumers. This component of the Saskatchewan Energy Share will continue until March 31, 2006.

During 2005, SaskEnergy incurred $53.4 million of investments and capital expenditures (net of customer capital contributions). These expenditures were invested in pipeline infrastructure projects ($39.6 million) and expanded storage capacity ($11.8 million) within the Province. As well, SaskEnergy incurred capital expenditures of $8.7 million related to the development of its distribution utility joint venture in Nova Scotia, Heritage Gas Limited. SaskEnergy is planning capital expenditures of approximately $207.3 million over the next three years primarily for the purpose of maintaining and improving the integrity of its aging pipeline infrastructure. SaskEnergy is also planning capital expenditures of $45 million for new business developments.





During 2005, SaskEnergy repaid $101 million of long-term debentures bearing an average interest rate of 8.4%. SaskEnergy also issued $75 million of long-term debt at an effective average rate of 4.5%. The estimated savings of $2.9 million per year resulting from this debt refinancing will benefit distribution utility and transmission utility customers. Short-term debt balances increased by $1.6 million to $80.5 million at December 31, 2005. For the next three years to 2008, SaskEnergy will need to refinance $164 million of maturing long-term debt. Cash from operations is anticipated to be sufficient to enable SaskEnergy to permanently retire a portion of this debt. The remainder will be reissued, through the Province of Saskatchewan, as new long-term debt.

In 2005, SaskEnergy paid a dividend to Crown Investments Corporation of $50.6 million. In 2003 and 2004, SaskEnergy paid dividends totalling $74.6 million. In 2006, SaskEnergy expects to maintain or increase its annual dividend payments as the Corporation's capital structure continues to improve.

SaskEnergy's liquidity and capital resources are sufficient to meet its requirements for the foreseeable future. The stability of cash generated from operations, access to short-term financing through the Province of Saskatchewan, and bank credit lines provide adequate financial capacity to finance capital expenditures, meet dividend requirements and pay debt obligations as they come due.

Risk Management

The transmission, storage, distribution and sale of natural gas present a range of business and financial risks. SaskEnergy's strategy with respect to risk management is to take only those risks it has appropriate resources, expertise and financial capacity to manage. In addition, the nature of accepted risks must be understood, as well as the impact these risks may have on operations, reputation and financial condition. The appropriate policies and procedures must be in place to respond to these risks. SaskEnergy manages the risks presented below in accordance with policies and guidelines established by the Board of Directors.

Natural gas price risk	Very High	Risk of natural gas costs rising above the rate at which the natural gas is sold to customers	SaskEnergy's exposure to natural gas price risk occurs primarily when the Corporation purchases natural gas at variable market prices and resells this natural gas to customers at fixed rates	A $1.00 change in the market price of natural gas affects the annual purchase cost of gas by approximately $54 million	The risk of natural gas costs rising above the rate at which the natural gas is sold to customers can be mitigated through a natural gas price hedging program. Also, SaskEnergy accumulates differences between the cost of gas sold and its selling price in a Gas Cost Variance Account (GCVA). The balance in the GCVA may be recovered from or refunded to customers in subsequent periods.
		Risk of selling gas at a price lower than the purchase cost	SaskEnergy buys and sells gas in its natural gas marketing business and may be exposed to price movement for short periods	The risk of loss is limited to less than $2 million per year by policy	The natural gas price risk is subject to the Natural Gas Marketing Risk Management Policy, which limits the amount of exposure to price volatility and establishes a program to measure, monitor and report on natural gas price risk daily.
Winter weather	High	Changes in winter weather affect distribution utility revenue	In Saskatchewan, variability in winter weather temperature has a direct impact on natural gas consumption	Every 10% change in heating degree days affects SaskEnergy's delivery revenue by about $7 million	Part of the delivery charge is a fixed Basic Monthly Charge which ensures SaskEnergy earns revenue from its customers regardless of the level of gas consumption.
		Variability in winter weather throughout North America has a direct impact on the prices SaskEnergy pays for natural gas	Generally a cold winter will result in higher gas prices while a warm winter will result in lower prices		The impact of higher or lower gas prices is discussed above.

Risk Type	Exposure	Risk Factor	Description	Impact	Risk Management
Interest rate risk	Moderate	Risk that changes in interest rates will increase interest expense and cost of service	SaskEnergy has a significant capital investment in physical assets. About 65% of that investment is financed by issuing debt. The interest paid on debt used to finance assets is a significant component of SaskEnergy's cost structure.	For every $10 million of debt issued in a year, a 0.25% change in the interest rate will affect annual interest expense by approximately $25,000.	SaskEnergy manages interest rate risk by requiring all long-term capital requirements to be financed with long-term fixed rate debt, thereby minimizing the impact of changing interest rates on financial results. Furthermore, SaskEnergy manages the maturity dates on its debt to minimize the impact of interest rate risk in any single year. In addition, SaskEnergy may use financial instruments to hedge short-term debt from changes in interest rates.
Provincial economy	Low	Economic growth affects growth in SaskEnergy's primary business.	SaskEnergy currently serves more than 90% of all communities in Saskatchewan. It is becoming increasingly more difficult to economically expand service to areas not currently receiving natural gas distribution service. Opportunities to expand service depend upon continued economic growth within the existing service area.	Growth in the number of customers within the existing service area helps reduce the unit cost of service.	SaskEnergy has cost containment strategies to ensure rising costs do not significantly exceed the growth of the system. To ensure existing customers are not adversely affected by the addition of new customers, service is only expanded where the anticipated incremental revenue is sufficient to recover incremental cost of service.
		Population dispersion	Population is in decline in certain rural service areas and the growth of urban centres has put added demand pressure on urban distribution systems.	Higher maintenance costs.	SaskEnergy has franchise rights to provide distribution service to customers within Saskatchewan and an implied obligation to meet customer demand where economically feasible.
Declining system throughput	Low	Declining natural gas reserve life	While there are currently adequate supplies of natural gas to meet demand within Saskatchewan, the age and declining reserve life of the Western Canadian Sedimentary Basin remain a longer-term issue.	As throughput declines, the unit cost of service increases.	SaskEnergy promotes the conservation efforts of its customers through initiatives such as those introduced as part of the Saskatchewan Energy Share.
		Conservation initiatives	Conservation initiatives by customers have reduced the average annual volume of natural gas usage per customer. Conservation initiatives tend to have a higher impact on customer usage in a high natural gas price environment.	As use per customer declines, the fixed costs of the pipeline system are recovered over lower sales volumes.	SaskEnergy incorporates an assumption for declining use per customer in its revenue forecasts and rate setting process.

Operational risk	High	Operational risks include hazards experienced in the operation and maintenance of the pipeline system.	Examples of operational hazards include severe weather conditions; fire; human error; mechanical failures; third party encroachment on a pipeline; hazardous materials; and acts of civil disobedience, sabotage, and riots.	Operational risks can cause outages which affect SaskEnergy's ability to provide service and therefore result in lost revenue. In addition, operational risk can threaten employee and public safety and cause damage to pipelines which require financial investments to repair.	SaskEnergy mitigates its operational risks through public awareness programs, employee and operator training, operating manuals and procedures, and safety programs. In addition, the financial impact of these risks is mitigated, where possible, through the purchase of insurance. Additionally, the pipeline system is designed to meet customer demand in an extremely cold winter and, consequently, there is usually substantial redundancy within the system to meet demand even in the event of a disruption.
Counterparty credit risk	High	Risk of financial loss due to financial failure of counterparties and large customers.	Failure of a counterparty to fulfill contractual financial commitments due to financial distress.	SaskEnergy limits the total probable credit loss in any one year to $2.5 million. However, the maximum credit exposure to the most creditworthy counterparts may be as high as $25 million.	SaskEnergy mitigates credit risk by reviewing the credit worthiness of large customers and contractual counterparties, limiting the maximum amount of credit extended to any entity, and continually monitoring customer and counterparty credit. Additionally, credit checks and reviews are performed before any transactions are completed, and entities with inadequate credit are required to post security.
Customer credit risk	Moderate	Risk of financial loss due to financial difficulties of customers.	Failure of customers to pay bills.	Bad debts of SaskEnergy's customers have historically been between 0.15% and 0.54% of distribution revenue.	SaskEnergy mitigates its credit risk by requiring customers to provide security deposits prior to receiving service and closely monitoring payments on account.
Regulatory risk	High	Uncertainty presented by the decisions of a regulator.	In July 2000, the Government of Saskatchewan introduced the Saskatchewan Rate Review Panel (SRRP). The SRRP is a ministerial advisory committee to the Minister of Crown Investments Corporation of Saskatchewan. The SRRP's mandate is to conduct reviews of rate change requests from specific Crown corporations, including SaskEnergy.	The impact of a 1% differential between a commodity rate increase request and the approved commodity rate is approximately $3.9 million.	SaskEnergy follows standard accepted regulatory principles in designing rates and operating its system and presents these practices together with its rate applications. The recommendations of the SRRP are subject to final approval by the Provincial Cabinet.

Environmental risk	Moderate	The risk that the activities of SaskEnergy may cause temporary or permanent damage to the environment	Gathering, compression, storage, transmission and distribution of natural gas involve the use of certain chemicals and materials that are considered hazardous to the environment and require special handling procedures. The Kyoto Accord presents additional risk to SaskEnergy because methane, the largest component of natural gas, is considered a powerful greenhouse gas. Consequently, the release of natural gas into the environment may contribute to global warming.	Uncontrolled release of liquid substances or natural gas into the environment (soil, water and air).	The environmental risks presented by natural gas and certain chemicals and materials are mitigated by proper handling and containment procedures, product substitution, and employee and operator training. SaskEnergy is working to reduce its greenhouse gas emissions in accordance with the Kyoto Accord and the proposed federal regulations for Large Final Emitters.

Critical Accounting Policies and Estimates

The Corporation prepares its financial statements in accordance with Canadian generally accepted accounting principles applied on a consistent basis and includes certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue, and expenses. The significant accounting policies are disclosed in Note 2 to the accompanying Consolidated Financial Statements. Certain of the significant accounting policies and estimates are summarized as follows:

- **Competitive Gas Sales**

  The primary purpose of the distribution utility is to supply natural gas to customers who use the natural gas mainly for heating their premises. Consumption of natural gas in Saskatchewan is cyclical and periods exist where pipeline and storage capacity are not used to their fullest extent. To take advantage of underutilized capacity during these off-peak periods, the distribution utility may enter into transactions whereby it purchases natural gas, places it into storage and earns a margin by selling it in the open market at a later date.

  Competitive gas sales transactions may occur where the purchase price (or, in some instances, the selling price) is established initially, but the corresponding selling price (or purchase price) is not determined until a later date. During the period between the purchase or sale of the natural gas and the final settlement date, a profit or loss is recorded as the difference between the purchase price (or selling price) and the current market price.

- **Natural Gas Price Hedging**

  The majority of natural gas purchase contracts are priced according to a monthly market price. To help reduce fluctuations in purchase prices, SaskEnergy may utilize financial instruments offered by financial institutions or other counterparties to exchange a variable price for a fixed price. These financial instruments result in either the receipt of funds by the Corporation or the payment of funds to the counterparty, depending on whether the market price is above or below the agreed-upon fixed price. Payments made to or received from counterparties are included in the commodity cost of gas.

- **Revenue Recognition**

  Delivery and commodity revenues are recognized when natural gas is delivered to customers. Since it is not cost-effective to read all customer meters on the same day at the end of the financial reporting period, the revenue associated with the volume of natural gas delivered but not billed as of December 31 must be estimated. The volume of unbilled sales is determined by comparing the total volume of natural gas purchased by the distribution system to the total estimated volume of natural gas delivered to customers. Volumes purchased are reconciled to volumes billed using regular meter readings.

- **Saskatchewan Energy Share**

  The Corporation is receiving an appropriation from the Government of Saskatchewan under the Saskatchewan Energy Share for the period November 1, 2005 to March 31, 2006. The amounts eligible to be received from the appropriation are recorded in the month in which the natural gas is sold.

  During December 2005, SaskEnergy received $31.7 million related to the under-recovery of costs on the sale of natural gas to distribution utility customers prior to November 1, 2005. In December 2005, $13.3 million was received related to the natural gas sold to customers during November 2005. An accrual of $8.6 million was made in the financial records as at December 31, 2005 related to the natural gas sold to customers during that month. This receivable from the Government of Saskatchewan was cleared upon receipt of the funds in January 2006.

Consolidated Financial Statements

The management of SaskEnergy Incorporated is responsible for the integrity of the accompanying consolidated financial statements and all other information contained in the Corporation's 2005 Annual Report and the Corporate Social Responsibility Report. The consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis, and include amounts based on management's informed judgments and estimates. Financial information included elsewhere in the 2005 business reporting package is consistent with the consolidated financial statements.

The Corporation's Board of Directors (the Board) is responsible for overseeing the business and affairs of the Corporation. The Board, through its Audit and Finance Committee (the Committee), is responsible for ensuring that management fulfills its financial reporting responsibilities. The Committee is composed of independent directors who are not employees of the Corporation. The Committee reviews the Management's Discussion and Analysis and meets regularly with management, internal audit services and the external auditors to discuss internal controls, accounting, auditing and financial matters. The Committee recommends the appointment of the external auditors. The Committee reports its findings to the Board for its consideration in approving both the consolidated and subsidiary financial statements.

Management maintains a system of internal controls to ensure the integrity of information that forms the basis of the financial statements. The internal control system ensures that: transactions are executed in accordance with proper authorization; the financial information is relevant, reliable, and accurate; and assets are appropriately accounted for and adequately safeguarded. The internal control system includes an internal audit function and an established code of conduct.

The consolidated financial statements have been audited by Deloitte & Touche LLP, Chartered Accountants as appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan. The Auditors' Report expresses their opinion on the fairness of the financial statements prepared by management.

Doug Kelln
President
and Chief Executive Officer

Greg Mrazek
Vice-President, Finance
and Chief Financial Officer

February 10, 2006

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of SaskEnergy Incorporated as at December 31, 2005 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

Regina, Saskatchewan
February 10, 2006

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31
(THOUSANDS OF DOLLARS)

	2005	2004
ASSETS		
Current assets		
Cash	$ 1,572	$ 3,637
Accounts receivable (Note 4)	215,614	173,726
Natural gas in storage held for resale	139,255	95,966
Inventories of supplies	7,346	6,843
	363,787	280,172
Property, plant and equipment (Note 5)	946,947	949,461
Investments and other assets (Note 6)	32,225	31,755
Natural gas in storage held for resale and operations	28,030	25,053
	$ 1,370,989	$ 1,286,441
LIABILITIES AND PROVINCE'S EQUITY		
Current liabilities		
Short-term debt (Note 7)	$ 80,500	$ 78,900
Accounts payable (Note 8)	237,591	159,422
Dividend payable	5,200	26,500
Current portion of long-term debt (Note 7)	71,637	106,235
	394,928	371,057
Long-term debt (Note 7)	582,279	569,348
	977,207	940,405
Province of Saskatchewan's equity		
Equity advances (Note 9)	71,531	71,531
Retained earnings	323,878	276,431
Foreign currency translation adjustment (Note 6)	(1,627)	(1,926)
	393,782	346,036
	$ 1,370,989	$ 1,286,441

Commitments and contingencies (Note 10)
(See accompanying notes)
On behalf of the Board

Director

Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

YEARS ENDED DECEMBER 31
(THOUSANDS OF DOLLARS)

	2005	2004
REVENUE		
Delivery	$ 156,191	$ 162,246
Transportation and storage	87,890	88,436
Net sales from gas marketing (Note 11)	42,110	36,535
Revenue collected for municipalities (Note 12)	27,673	24,270
Other	6,901	5,932
	320,765	317,419
EXPENSES		
Operating and maintenance	122,582	117,743
Interest (Note 7)	46,974	49,462
Amortization (Note 5)	51,267	49,608
Payment to municipalities (Note 12)	27,673	24,270
Saskatchewan taxes (Note 13)	6,929	6,256
	255,425	247,339
Net earnings from operations before the following	65,340	70,080
Commodity revenue	376,083	387,042
Cost of gas sold	(418,296)	(349,280)
Saskatchewan Energy Share (Note 3)	53,620	
Gain on commodity sales	11,407	37,762
Net earnings	76,747	107,842
Retained earnings, beginning of year	276,431	238,589
Dividends	(29,300)	(70,000)
Retained earnings, end of year	$ 323,878	$ 276,431

(See accompanying notes)

CONSOLIDATED STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31
(THOUSANDS OF DOLLARS)

	2005	2004
OPERATING ACTIVITIES		
Net earnings	$ 76,747	$ 107,842
Add (deduct) items not requiring an outlay of cash		
Amortization	51,267	49,608
Other non-cash items	(1,467)	(1,141)
	126,547	156,309
Net change in non-cash working capital related to operations (Note 14)	(7,511)	(25,465)
Cash provided by operating activities	119,036	130,844
INVESTING ACTIVITIES		
Additions to property, plant, and equipment	(58,596)	(67,925)
Additions to investments and other assets	(1,649)	(937)
Customer capital contributions received	9,843	10,325
(Increase) decrease in natural gas in storage (non-current)	(2,977)	713
Cash used in investing activities	(53,379)	(57,724)
FINANCING ACTIVITIES		
Increase (decrease) in short-term debt	1,600	(31,100)
Sinking fund redemptions	11,058	-
Sinking fund instalments	(5,540)	(4,540)
(Increase) decrease in deferred charges	(851)	1,969
Proceeds from long-term debt	77,806	50,000
Repayments of long-term debt	(101,195)	(30,457)
Dividends paid	(50,600)	(54,060)
Cash used in financing activities	(67,722)	(68,188)
(Decrease) increase in cash during the year	(2,065)	4,932
Cash position, beginning of year	3,637	(1,295)
Cash position, end of year	$ 1,572	$ 3,637

Cash position consists of cash less bank indebtedness.
(See accompanying notes)

SaskEnergy Incorporated (SaskEnergy) is a Saskatchewan provincial Crown corporation operating under authority of *The SaskEnergy Act*.

By virtue of *The Crown Corporations Act, 1993*, SaskEnergy has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), a provincial Crown corporation. Accordingly, the financial results of SaskEnergy are included in the consolidated financial statements of CIC.

As a provincial Crown corporation, SaskEnergy and its wholly owned subsidiaries are not subject to Federal or Provincial income taxes in Canada.

SaskEnergy and its wholly owned subsidiaries own and operate natural gas related businesses located both within and outside Saskatchewan. Operations subject to regulation, as to the rates charged to customers, are described in note 17.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles applied on a consistent basis and include certain estimates based on management's judgment. These estimates affect the reported amounts of assets, liabilities, revenue and expenses. Actual results could differ from these estimates. The impact of rate regulation on the application of Canadian generally accepted accounting principles is described in note 17. The following accounting policies are considered to be significant:

A. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Corporation and its wholly owned subsidiaries, Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, SaskEnergy Chilean Holdings I Ltd., SaskEnergy Chilean Holdings II Ltd., SaskEnergy Mexican Holdings Ltd., SaskEnergy Nova Scotia Holdings Ltd., Swan Valley Gas Corporation, and TransGas Limited. The accounts also include the Corporation's 100 per cent ownership interest in SaskEnergy Chilean Holdings Limitada, a Chilean limited partnership and the Corporation's 50.1 per cent proportionate share of the accounts of Heritage Gas Limited. Separate audited financial statements are prepared for each of these entities.

B. NATURAL GAS IN STORAGE

i. Natural gas in storage held for resale

Natural gas in storage held for resale (both current and non-current) is stated at lower of cost and net realizable value. Natural gas held for resale removed from storage is accounted for on an average cost basis. Natural gas in storage held for resale classified as a current asset is the estimated amount of natural gas in storage to be sold in 2006 with the remainder classified as non-current.

ii. Natural gas in storage held for operations

Natural gas in storage held for operations is stated at cost.

C. INVENTORIES OF SUPPLIES

Inventories of supplies consist primarily of pipe and general stock for construction and maintenance and are recorded at the lower of average cost or replacement cost.

D. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is stated at cost and includes all direct costs plus overhead charges and an allowance for interest costs related to financing construction of the related assets.

The costs of renewals and betterments which extend the economic useful life of assets are capitalized.

Retirement or sale of a major item or class of property, plant and equipment, is accounted for by relieving the asset accounts of the associated cost and accumulated amortization. The difference between the proceeds and the net book value of the assets disposed is included in earnings for the current period.

Other asset retirements are recorded by reducing the account by the cost of the asset and charging this amount, net of proceeds received, to accumulated amortization.

Amortization expense is calculated on a straight-line basis over the estimated service life of the asset. The amortization rates are as follows: (in per cent)

Transmission and storage	2.5 to 7.6
Distribution	2.5 to 3.5
Gathering, treatment and compression	2.5 to 3.5
Vehicles, equipment and other	2.5 to 50.0

Customer capital contributions relate to construction of new service connections. These contributions from customers are amortized on a straight-line basis over the estimated service life of the related asset.

E. INVESTMENTS

The Corporation accounts for its investments in Gas Sur S.A. and Igasamex USA Ltd. using the equity method.

F. FOREIGN CURRENCY TRANSLATION ADJUSTMENT

The Corporation's foreign investments are self-sustaining, and the financial statements are translated from the functional currency into Canadian dollars using the current rate method. Translation adjustments resulting from changes in the exchange rate between the functional currency and the Canadian dollar are reflected in the foreign currency translation adjustment in the Province of Saskatchewan's Equity.

G. REVENUE RECOGNITION

Delivery and commodity revenue is recognized when natural gas is delivered to customers. An estimate of natural gas delivered, but not billed as of December 31, is included in revenue.

Revenue is recognized when transportation, transportation-related services and storage are provided to customers. An estimate of transportation, storage and related services rendered, but not billed as of December 31, is included in revenue.

Net sales from natural gas marketing is recognized in the financial statements upon completion of the delivery of natural gas to the customer.

Royalty revenue, included in other revenue, is recognized when natural gas is sold from wells subject to royalty agreements. Royalty revenue, accounts receivable and accrued revenue are subject to measurement uncertainty. These amounts are based on the Corporation's best information and judgment.

H. COST OF GAS SOLD

The cost of gas sold includes the cost of purchasing natural gas on the open market, hedging settlements, transportation, direct operating costs related to supply acquisition, and natural gas inventory carrying costs.

I. COMPETITIVE GAS SALES

Where the Corporation purchases natural gas in the open market at a fixed purchase price and simultaneously enters into agreements to sell this natural gas at a fixed selling price, the gain or loss is recorded at the time the transaction is settled.

In addition, the Corporation may enter into contracts that require either the physical delivery (sale) or receipt (purchase) of natural gas in a future period. Contracts may be structured so that the settlement price is determined in the future at the time of delivery or receipt. Changes in the value of the contract due to a change in market prices, up to the date of settlement, are recorded as gains or losses in the period of change.

J. DERIVATIVE INSTRUMENTS

The Corporation uses various derivative instruments to hedge its operating exposures to fluctuations in foreign currency exchange rates, interest rates and the price of natural gas. A Corporate Derivatives Policy and specific hedging strategies establish the guidelines within which such instruments may be used.

The Corporation can designate a derivative instrument as a hedge when there is a high degree of correlation between price movements in the derivative instrument and the item designated as being hedged. Gains and losses are recognized and recorded in the statement of earnings and retained earnings upon settlement of the derivative instruments. If correlation ceases or the Corporation terminates its designation of the derivative instrument as a hedge, future changes in the market value of the derivative instruments are recognized as gains or losses in the period of change.

i. Natural gas price risk management

The Corporation may hedge the purchase and sale price of natural gas. The purchase or sale price of natural gas may be fixed within the contract, or referenced to a floating index price. When the price is referenced to a floating index price, derivative instruments may be used as a hedge to fix the settlement amount. The types of instruments SaskEnergy uses to effect these hedges include natural gas price swaps, options, swaptions and futures contracts. The Corporation may sell options to generate premium revenue, which is used to offset the cost to purchase call options.

Derivative instruments that do not qualify as a hedge and derivative instruments not designated as a hedge are recorded at fair value in the statement of financial position in accounts receivable, or accounts payable as applicable. Gains and losses resulting from changes in fair value are recorded in the statement of earnings and retained earnings in the cost of gas.

ii. Foreign currency exchange and interest rate risk management

The Corporation uses derivative instruments to hedge the interest rate on anticipated borrowing requirements and the foreign currency exchange rate on foreign currency denominated transactions. For the purpose of hedging interest rates, the Corporation may use forward rate agreements, options, and interest rate swaps. For the purpose of hedging the exchange rate on transactions denominated in foreign currency, SaskEnergy may use currency forwards and currency options.

K. EMPLOYEES' FUTURE BENEFITS

i. Pension plans

The Corporation provides pension plans for all eligible employees, including a defined contribution pension plan and a defined benefit pension plan.

Under both plans the Corporation's obligations are limited to making regular payments to the plans for current services. When made, these contributions are charged to expenses.

ii. Retirement Allowance Plan

The cost of future retirement allowance benefits earned by employees under this plan is actuarially determined using the projected benefit method and management's best estimates. Past service costs are amortized on a straight-line basis over the estimated average remaining service period of active employees.

L. DEFERRED FINANCING CHARGES

Included in deferred financing charges are issue costs, discounts and premiums resulting from the issue of long-term debt, and costs of terminating delayed start interest rate swaps relating to financing of debt. These deferred financing charges are amortized as part of interest expense over the term of the related debt on a straight-line basis.

M. SASKATCHEWAN ENERGY SHARE

The Corporation is receiving an appropriation from the Government of Saskatchewan under the Saskatchewan Energy Share. The amounts eligible to be received from the appropriation are recorded in the month in which the natural gas is sold.

On November 29, 2005, the Government of Saskatchewan approved an appropriation of $123,940 thousand (titled – "SaskEnergy Incorporated Vote 77") to establish the Saskatchewan Energy Share. The Saskatchewan Energy Share is intended to reduce the cost of natural gas sold by SaskEnergy to its rate regulated customers. The appropriation relates to the period November 1, 2005 to March 31, 2006 as it is designed to assist natural gas consumers in dealing with high natural gas prices during the winter of 2005/2006.

The financial impact of the Saskatchewan Energy Share is as follows:

A. During 2002 and 2003 SaskEnergy sold natural gas to customers below its cost. A portion of these under-recovered costs were received from customers between June 2003 and October 31, 2005. As at October 31, 2005, SaskEnergy had not yet recovered $31,703 thousand of this past under-recovery of costs. In order to alleviate customers from having to pay SaskEnergy for these past costs, $31,703 thousand was paid to SaskEnergy by the General Revenue Fund (GRF), a related party. As a result SaskEnergy has been fully reimbursed for these past costs.

B. Through the Saskatchewan Energy Share, the Government of Saskatchewan appropriated up to $92,040 thousand which is eligible to be used by SaskEnergy to cap the cost of natural gas sold at $7.95 per Gigajoule. The appropriation relates to natural gas sold to customers during the period November 1, 2005 to March 31, 2006. For each month during this period, SaskEnergy will calculate its actual cost per Gigajoule of natural gas and compare this amount to the cap of $7.95 per Gigajoule. Should SaskEnergy's actual cost of gas be above the cap of $7.95 per Gigajoule, the GRF will pay SaskEnergy an amount required to reduce the cost of gas down to the cap of $7.95 per Gigajoule. Accordingly, for the month of November, 2005, SaskEnergy received $13,322 thousand from the GRF. For December, 2005 the amount was $8,595 thousand, which was received in January, 2006.

C. Certain natural gas consumers in Lloydminster, Saskatchewan receive their natural gas service from Direct Energy Regulated Services (a supplier based in Alberta). Under the Saskatchewan Energy Share, $1,000 thousand has been allocated to provide eligible Lloydminster customers with a one time credit of $200. This credit will be provided to these customers in 2006. SaskEnergy will reimburse Direct Energy Regulated Services for the total amount of the credit and then in turn recover this amount from the GRF.

(THOUSANDS)	2005	2004
Trade accounts	$ 48,913	$ 33,666
Unbilled revenue	146,961	122,991
Other accounts	19,740	17,069
	$ 215,614	$ 173,726

(THOUSANDS)	2005			2004		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Transmission and storage	$ 627,211	$ 189,961	$ 437,250	$ 607,993	$ 173,419	$ 434,574
Distribution	629,883	190,999	438,884	609,371	173,770	435,601
Gathering, treatment and compression	141,256	61,309	79,947	152,648	60,448	92,200
Vehicles, equipment and other	165,735	96,030	69,705	162,983	90,908	72,075
Franchise acquisition costs	1,668	133	1,535	1,668	67	1,601
Royalty interest	6,509	6,509	-	6,509	6,509	-
Construction in progress	43,744	-	43,744	31,285	-	31,285
	$ 1,616,006	$ 544,941	1,071,065	$ 1,572,457	$ 505,121	1,067,336
Less:						
Unamortized customer capital contributions			124,118			117,875
			$ 946,947			$ 949,461

Property, plant and equipment includes $16,850 thousand (2004 - $9,048 thousand) which represents the Corporation's 50.1 per cent proportionate interest in the assets of Heritage Gas Limited.

Franchise acquisition costs relate to the costs required to acquire the franchise distribution of natural gas in the Province of Nova Scotia.

A. CUSTOMER CAPITAL CONTRIBUTIONS

Customer capital contributions are required to be paid by customers to SaskEnergy to aid in construction of certain customer-specific facilities in accordance with established business policies.

(THOUSANDS)	2005	2004
Balance, beginning of year	$ 117,875	$ 110,944
Contributions received	9,843	10,325
Contributions amortized	(3,600)	(3,394)
Balance, end of year	$ 124,118	$ 117,875

B. AMORTIZATION

(THOUSANDS)	2005	2004
Amortization of property, plant and equipment	$ 54,867	$ 53,002
Amortization of customer capital contributions	(3,600)	(3,394)
	$ 51,267	$ 49,608

The composite rate of amortization (excluding the effect of customer capital contributions amortization) was 3.44 per cent during 2005 (3.44 per cent during 2004).

Investments and other assets are as follows:

	2005		2004	
	Amount	Per cent Ownership	Amount	Per cent Ownership
	(THOUSANDS)		(THOUSANDS)	
a. Equity investments:				
i. Gas Sur S.A.	$ 14,530	30.0	$ 13,511	30.0
ii. Igasamex USA Ltd.	9,880	40.1	9,926	40.1
	24,410		23,437	
b. Other receivables	2,708		1,059	
c. Deferred charges:				
Unamortized deferred financing costs	4,170		4,076	
Unamortized past service costs	937		3,183	
	5,107		7,259	
	$ 32,225		$ 31,755	

Equity investments:

i. Gas Sur S.A.

The Corporation's 30 per cent share of Gas Sur S.A.'s 2005 net earnings was $378 thousand (2004 – $381 thousand). The Corporation's share of the foreign currency translation adjustment for 2005 resulted in a $641 thousand increase in the balance of the investment in Gas Sur S.A. (2004 – $84 thousand reduction). The cost of the investment exceeded the Corporation's underlying share of the net book value of Gas Sur S.A. by approximately $5,100 thousand (2004 – $5,100 thousand).

ii. Igasamex USA Ltd.

The Corporation's 40.1 per cent share of Igasamex USA Ltd.'s 2005 net earnings was $295 thousand (2004 – $131 thousand). The Corporation's share of the foreign currency translation adjustment related to the investment in Igasamex USA Ltd. for 2005 resulted in a $342 thousand reduction in the balance of the investment in Igasamex USA Ltd. (2004 – $759 thousand reduction). The cost of the investment exceeded the Corporation's underlying share of the net book value of Igasamex USA Ltd. by approximately $4,900 thousand (2004 – $5,200 thousand).

Years to Maturity	2005 Principal Outstanding (THOUSANDS)	2005 Average Fixed Interest Rate (PER CENT)	2004 Principal Outstanding (THOUSANDS)	2004 Average Fixed Interest Rate (PER CENT)
Province of Saskatchewan				
1 - 5	$ 308,564	7.6	$ 329,758	8.2
6 - 10	150,000	4.9	180,000	5.7
11 - 15	33,971	6.7	-	-
16 - 35	185,000	7.1	193,971	7.3
	677,535		703,729	
Less sinking fund equity	(31,240)		(32,962)	
Less due within one year	(71,637)		(106,235)	
Due to Province of Saskatchewan	574,658		564,532	
Other	7,621	8.5	4,816	13.5
	$ 582,279		$ 569,348	

A. SINKING FUNDS

Under conditions attached to certain advances from the Province of Saskatchewan's General Revenue Fund, SaskEnergy is required (on an annual basis) to invest an amount equal to one per cent of the related outstanding debt. This investment is referred to as a sinking fund. These sinking funds are administered by Saskatchewan's Department of Finance. The investments held in these sinking funds are primarily Province of Saskatchewan debt instruments. The yield on these investments was 10.7 per cent for 2005 (6.82 per cent for 2004).

B. MATURITY DATES

Maturity dates are equivalent to interest rate repricing dates.

C. PRINCIPAL REPAYMENTS

Principal repayments and sinking fund instalments due in each of the next five years are as follows:

(THOUSANDS)	2006	2007	2008	2009	2010
Principal	$ 66,597	$ 47,705	$ 75,126	$ 39,136	$ 80,000
Sinking fund instalments	5,040	5,040	4,740	4,490	4,490
	$ 71,637	$ 52,745	$ 79,866	$ 43,626	$ 84,490

D. SHORT-TERM DEBT

During 2005, the Corporation borrowed funds on a short-term basis from the Province of Saskatchewan's General Revenue Fund at an average interest rate of 3.2 per cent (2004 - 2.9 per cent).

Short-term debt at December 31, 2005 consists of $80,500 thousand (2004 - $78,900 thousand) that was due to the Province of Saskatchewan's General Revenue Fund with an interest rate of 3.44 per cent (2004 - 2.5 per cent).

E. INTEREST EXPENSE

Interest expense was as follows:

(THOUSANDS)	2005	2004
Interest expense on long-term debt	$ 52,755	$ 51,535
Interest expense on short-term debt	426	1,668
Amortization of deferred financing costs	826	1,322
Sinking fund earnings	(3,796)	(2,301)
Interest allocation to cost of gas sold	(2,633)	(2,209)
Interest capitalized	(604)	(553)
	$ 46,974	$ 49,462

Cash interest paid during 2005 on long-term debt was $53,567 thousand (2004 - $51,904 thousand).

(THOUSANDS)	2005	2004
Supplier payables	$ 177,895	$ 103,755
Interest payable	12,631	13,230
Other payables	47,065	42,437
	$ 237,591	$ 159,422

The Corporation does not have share capital. However, the Corporation has received advances from CIC to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

FINANCIAL INSTRUMENTS

A. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of the Corporation's financial instruments is listed below:

	2005		2004	
(THOUSANDS)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	$ 685,156	$ 798,202	$ 708,545	$ 814,123
Sinking fund equity	31,240	33,087	32,962	34,692
Natural gas price hedges owed to (by) SaskEnergy				
- swaps	(2,329)	2,362		5,682
- options	1,896	(4,090)	11,302	(11,824)

The fair values of the above instruments were based on the following:

i. **Long-term debt** – The present value of future cash flows discounted at the market rate of interest for the equivalent Province of Saskatchewan debt instruments.

ii. **Sinking fund equity** – The market value of the investments held in the sinking fund as at year end.

iii. **Natural gas price swaps** – The relevant index price in effect as at year end. Swap contracts have been entered into for 2006 and 2007.

iv. **Natural gas price options** – The relevant index price in effect as at year end. Option contracts have been entered into for the period January, 2006 to October, 2006.

The carrying values of other financial instruments (accounts receivable, accounts payable, dividend payable and short-term debt) approximate fair value.

B. The Corporation has entered into forward purchase agreements to purchase 3.0 Petajoules and sell 3.0 Petajoules of natural gas during 2006.

C. The Corporation has entered into natural gas price swaps with counterparties, to fix the purchase price of 2.6 Petajoules in 2006 and 2007. The natural gas will be held for operations.

D. The Corporation has entered into natural gas price swaps, to fix the selling price of 3.6 Petajoules committed for sale during 2006 and 2007.

E. CREDIT RISK MANAGEMENT

The Corporation extends credit to its customers in the normal course of business and is at risk of loss in the event of non-performance by counterparties on certain of the financial instruments described above. To reduce its credit risk, SaskEnergy has established policies and procedures to monitor and limit the amount of credit extended to its customers and counterparties.

F. GUARANTEES

SaskEnergy has granted a guarantee related to certain obligations established under the Gas Sur S.A. Shareholders' Agreement. The guarantee is expressly limited to $5,000 thousand (United States dollars).

G. LETTERS OF CREDIT

i. The Corporation, through its subsidiary SaskEnergy Mexican Holdings Ltd., has posted a $4,008 thousand (United States dollar denominated) letter of credit in favour of Bank One, N.A., a United States bank. The letter of credit was used as collateral for the Corporation's share of a line of credit issued to Igasamex USA Ltd. Bank One, N.A. may draw upon this letter of credit if Igasamex USA Ltd. defaults under the terms of its loan agreement with Bank One, N.A.

ii. The Corporation has posted a $10,000 thousand letter of credit with NGX Financial Inc. (NGX) as security for gas purchase and sales transactions conducted by SaskEnergy on the NGX natural gas exchange in Alberta. NGX may draw on the letter of credit if SaskEnergy fails to make timely payment for, or delivery of natural gas as per the related contract.

LEASES

Lease payments are as follows:

2006	2007	2008	2009	2010	THEREAFTER	TOTAL
(THOUSANDS)						
$ 1,724	$ 1,629	$ 1,625	$ 1,582	$ 2,388	$ 111	$ 9,059

Net sales from gas marketing include the following:

	2005	2004
(THOUSANDS)		
Competitive gas sales	$ 546,368	$ 327,018
Cost of gas	504,258	290,483
Margin	$ 42,110	$ 36,535

Gross revenue of $33,420 thousand from natural gas sales (2004 - $27,093 thousand) was generated from natural gas purchased from an affiliate at nil cost. The consideration was equal to the affiliate's carrying value.

A. NATURAL GAS DISTRIBUTION

In accordance with the provisions of *The SaskEnergy Act*, SaskEnergy is required to remit to 109 urban municipalities an amount calculated as either five per cent or three per cent of natural gas sales to customers within the respective municipality. These municipal payments are charged to customers and reported as revenue collected for municipalities. These amounts are remitted to the respective municipalities and reported as payments to municipalities on the consolidated statement of earnings. In 2005, revenue collected and paid to municipalities was $20,737 thousand (2004 - $20,885 thousand).

B. NATURAL GAS TRANSMISSION

In accordance with the provisions of *The SaskEnergy Act*, TransGas Limited (TransGas) is required to collect, from specific customers, an amount based on the value of natural gas transported on their behalf. TransGas in turn pays the revenue collected to those municipalities. The revenue collected is classified as revenue collected for municipalities, and the amount paid is classified as payments to municipalities on the statement of earnings. In 2005, revenue collected and paid to municipalities was $6,936 thousand (2004 - $3,385 thousand).

(THOUSANDS)	2005	2004
Corporate capital tax	$ 5,350	$ 5,086
Mitigation payments and property taxes	1,579	1,170
	$ 6,929	$ 6,256

The above amounts do not include Saskatchewan Provincial Sales Tax payments.

(THOUSANDS)	2005	2004
Accounts receivable	$ (41,888)	$ (29,202)
Natural gas in storage held for resale	(43,289)	(13,864)
Inventories of supplies	(503)	(385)
Accounts payable	78,169	17,986
	$ (7,511)	$ (25,465)

Included in these consolidated financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as related parties).

Routine operating transactions with these related parties are settled at exchange amounts which approximate prevailing market prices under normal trade terms. Transactions during the year, and amounts outstanding at year end, are as follows:

(THOUSANDS)	2005	2004
Revenue	$ 39,024	$ 38,654
Operating expenses	27,172	27,463
Customer capital contributions	4,386	4,320
Accounts receivable	2,886	1,362
Accounts payable	549	341
Natural gas held for resale	-	401

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Province of Saskatchewan on all of its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to and from related parties and the terms of settlement are described separately in these financial statements and the notes thereto.

8. PENSION PLANS

Substantially all employees of the Corporation are members of either a defined contribution or a defined benefit pension plan. During the year, the Corporation contributed $2,925 thousand (2004 - $2,824 thousand) on behalf of employees for current services.

9. RETIRING ALLOWANCE PLAN

The amounts related to the defined benefit retiring allowance plan for management employees and members of the Communications, Energy and Paperworkers Union (CEP), Local 649 are as follows:

(THOUSANDS)	2005	2004
Accrued benefit liability	$ 13,957	$ 12,239
Benefits paid during the year	556	494
Net expense	4,520	2,502

The significant actuarial assumptions adopted in measuring the Corporation's accrued benefit liability at December 31 are:

	2005	2004
Discount rate	4.50 per cent	4.50 per cent
Inflation rate	2.50 per cent	3.00 per cent
Average remaining employee service life	13.2 years	8.4 years

Effective January 1, 2005 the retiring allowance for employees who are members of the CEP was converted to an annual contribution to a registered savings plan. For these employees, the length of service earned for the purpose of the retiring allowance plan is equal to their service up to and including December 31, 2004. Entitlements, under the retiring allowance plan, earned to December 31, 2004 will be paid out to CEP members upon their retirement in accordance with the terms of the plan.

The impact of rate regulation on the application of Canadian generally accepted accounting principles as it relates to the regulated operations of the following entities is as follows:

A. SASKENERGY

By virtue of legislation, SaskEnergy has the exclusive authority to sell and distribute natural gas within Saskatchewan. In accordance with an Order-in-Council, the rates charged to customers for both the sale of the commodity and the distribution of natural gas are subject to review by the Saskatchewan Rate Review Panel (SRRP). The Provincial Cabinet has the authority to establish SaskEnergy's commodity and delivery rates and accordingly takes into consideration recommendations from the SRRP.

Based on the foregoing rate setting process, revenue recognition policies for commodity and delivery revenue are as described in note 2g. SaskEnergy's delivery revenue was $159,847 thousand for 2005 (2004 - $167,876 thousand) and commodity revenue was $374,525 thousand for 2005 (2004 - $386,448 thousand).

Cost of gas sold is accounted for in accordance with the policy described in note 2h.

For those commodity sales subject to the rate setting process described above, commodity rates charged to customers are based on the principle that SaskEnergy neither realizes a gain nor incurs a loss on sales of natural gas. Accordingly, SaskEnergy maintains a record of the differences between commodity revenue and cost of natural gas sold and accumulates these differences in a notional account referred to as the Gas Cost Variance Account (GCVA). The rate-setting process contemplates the balances reflected in the GCVA being recovered from or refunded to customers through future rate decisions of the Provincial Cabinet.

In accordance with the foregoing rate setting process, commodity revenue is reflected in these financial statements based on the rates approved by the Provincial Cabinet applying the accounting policies disclosed in Note 2g. The balances accumulated in the GCVA are not reflected in these financial statements.

The Provincial Cabinet requires that the amounts in the GCVA be audited annually by the Provincial Auditor.

B. TRANSGAS LIMITED (TRANSGAS)

By virtue of legislation, TransGas has the exclusive authority to transport natural gas within Saskatchewan. Accordingly, Cabinet has the authority to set transportation rates charged to shippers. Transportation rates are not subject to review by the SRRP.

Based on the foregoing rate setting process, revenue recognition policies for transportation revenue are as described in note 2g. TransGas transportation revenue was $105,067 thousand for 2005 (2004 - $109,255 thousand).

C. MANY ISLANDS PIPE LINES (CANADA) LIMITED (MIPL)

The business activities of MIPL are regulated by the National Energy Board.

Revenue recognition policies for MIPL transportation revenue are as described in note 2g. MIPL transportation revenue was $3,865 thousand for 2005 (2004 - $3,525 thousand).

D. SWAN VALLEY GAS CORPORATION (SVGC)

The business activities of SVGC are regulated by the Manitoba Public Utilities Board. SVGC's delivery revenue was $613 thousand for 2005 (2004 - $606 thousand) and commodity revenue was $691 thousand for 2005 (2004 - $533 thousand).

E. HERITAGE GAS LIMITED (HERITAGE GAS)

The business activities of Heritage Gas are regulated by the Nova Scotia Utility and Review Board (NSUARB). The following is a description of the effects of regulation on Heritage Gas as they relate to the Corporation's 50.1 per cent interest.

i. Revenue deficiency account (RDA)

Heritage Gas has approval from the NSUARB to use a RDA. The RDA changes based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. During Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate.

As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and, the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

The RDA as at December 31, 2005 was $2,709 thousand (December 31, 2004 - $1,059 thousand). The effect of the RDA accumulation was to increase revenue in 2005 by $1,650 thousand (2004 - $937 thousand).

ii. Allowance for funds used during construction (AFUDC)

Heritage Gas capitalizes an imputed carrying cost on assets under construction. The calculation method and rate of AFUDC have been approved by the NSUARB.

iii. Operating expenses

The NSUARB has approved the capitalization of operating and maintenance expenses. If Heritage Gas was not subject to rate regulation, certain of these amounts would not be capitalized.

iv. Income and other taxes

Heritage Gas follows the taxes payable method of accounting for income taxes. Provision is only made for those income taxes currently payable and no future tax is recorded on timing differences between accounting and taxable income.

The following amounts have been included in these consolidated financial statements with respect to the Corporation's 50.1 per cent interest of the Heritage Gas joint venture:

i. Consolidated statement of financial position

(THOUSANDS)	2005	2004
Current assets	$ 1,392	$ 931
Property, plant and equipment	16,849	9,048
Regulatory receivable	2,709	1,059
Deferred charges	151	203
Current liabilities	(1,689)	(902)
Net investment	$ 19,412	$ 10,239

ii. Consolidated statement of earnings

(THOUSANDS)	2005	2004
Revenue	$ 2,250	$ 1,182
Expenses	(901)	(407)
Net earnings	$ 1,349	$ 775

iii. Consolidated statement of cash flows

(THOUSANDS)	2005	2004
Cash used in operating activities	$ (355)	$ (568)
Cash used in investing activities	(7,682)	(4,645)
Decrease in cash	$ (8,037)	$ (5,213)

SaskEnergy operates predominantly in the following two industry segments:

Distribution – Distribution Division of SaskEnergy provides natural gas commodity and delivery services to customers in the Province of Saskatchewan.

Transportation – TransGas Limited operates the major natural gas transmission pipeline system within Saskatchewan providing open access transmission services including gathering, compression and natural gas processing to end-use customers, marketers and export producers. This company also provides natural gas storage services.

	DISTRIBUTION		TRANSPORTATION		OTHER[1]		INTERCOMPANY[2]		TOTAL	
($ Millions)	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
REVENUE										
Delivery revenue	159.9	167.9	-		2.9	1.8	(6.6)	(7.4)	156.2	162.3
Transportation and storage			134.3	136.2	3.8	3.5	(50.3)	(51.3)	87.8	88.4
Net sales from gas marketing	6.2	5.8	-		34.0	26.9	1.9	3.8	42.1	36.5
Revenue collected for municipalities	20.7	20.9	7.0	3.4	-		-		27.7	24.3
Other	2.7	2.5	-		7.6	7.0	(3.4)	(3.6)	6.9	5.9
	189.5	197.1	141.3	139.6	48.3	39.2	(58.4)	(58.5)	320.7	317.4
EXPENSES										
Operating and maintenance	112.7	111.5	59.5	56.4	5.2	5.1	(54.9)	(55.3)	122.5	117.7
Interest	16.3	16.7	26.2	26.7	1.5	2.2	3.0	3.9	47.0	49.5
Amortization	24.4	23.8	24.8	23.9	2.1	1.0	-	0.9	51.3	49.6
Payments to municipalities	20.7	20.9	7.0	3.4	-		-		27.7	24.3
Saskatchewan taxes	3.6	3.2	2.4	2.4	0.9	0.6	-		6.9	6.2
	177.7	176.1	119.9	112.8	9.7	8.9	(51.9)	(50.5)	255.4	247.3
Net earnings from operations before the following	11.8	21.0	21.4	26.8	38.6	30.3	(6.5)	(8.0)	65.3	70.1
Commodity revenue	374.5	386.4	-		1.6	0.6	-		376.1	387.0
Cost of gas sold	(419.6)	(351.5)	-		(1.6)	(0.7)	2.9	2.9	(418.3)	(349.3)
Saskatchewan Energy Share	53.6		-		-	-	-		53.6	
Gain (loss) on commodity sales	8.5	34.9	-		-	(0.1)	2.9	2.9	11.4	37.7
Net earnings (loss)	20.3	55.9	21.4	26.8	38.6	30.2	(3.6)	(5.1)	76.7	107.8

SEGMENTED FINANCIAL REPORTING

($ MILLIONS)	DISTRIBUTION		TRANSPORTATION		OTHER[1]		INTERCOMPANY[2]		TOTAL	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
ASSETS										
Current assets	344.0	288.3	23.9	13.7	8.5	4.2	(12.6)	(6.1)	363.8	280.1
Property, plant & equipment, & natural gas in storage	405.6	307.0	522.1	525.6	47.8	47.2	(0.5)	(0.3)	975.0	879.5
Investments & other assets	3.9	6.3	2.2	3.8	27.2	24.7	(1.1)	(3.0)	32.2	31.8
	753.5	601.6	548.2	543.1	83.5	77.1	(14.2)	(9.4)	1,371.0	1,291.4
LIABILITIES AND EQUITY										
Current liabilities	313.8	223.8	100.1	148.0	22.4	18.8	(41.4)	(19.5)	394.9	371.1
Long-term debt	245.1	238.6	277.4	220.6	21.3	16.1	38.5	94.0	582.3	569.3
	558.9	462.4	377.5	368.6	43.7	34.9	(2.9)	74.5	977.2	940.4
Equity	194.6	219.2	170.7	174.5	39.8	36.2	(11.3)	(83.9)	393.8	346.0
	753.5	681.6	548.2	543.1	83.5	77.1	(14.2)	(9.4)	1,371.0	1,291.4

[1] The Other category includes Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan Fuel Cell Corporation, SaskEnergy International Incorporated, Valley Gas Corporation and SaskEnergy Nova Scotia Holdings Ltd.

[2] The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Corporation accounts for intercompany sales as if the sales were made to third parties at current market prices.

The reportable segments are the major strategic business units of the Corporation. Each business unit is managed separately as it provides products and services requiring different business, technology and marketing strategies.

	DISTRIBUTION					TRANSPORTATION				
($ Millions)	2005	2004	2003	2002	2001	2005	2004	2003	2002	2001
STATEMENT OF EARNINGS										
REVENUE										
Delivery revenue	159.9	167.9	171.4	169.8	158.1	-				
Transportation and storage	-					134.3	136.2	134.3	123.3	125.1
Net sales from gas marketing	6.2	5.8				-		-	29.1	35.0
Revenue collected for municipalities	20.7	20.9	19.1	18.6	16.3	7.0	3.4	5.3	4.0	5.8
Other	2.7	2.5	5.7	(2.0)	2.1	-				
	189.5	197.1	196.2	186.4	177.1	141.3	139.6	139.6	156.4	165.9
EXPENSES										
Operating and maintenance	112.7	111.5	113.6	116.2	110.8	59.5	56.4	54.9	51.2	49.6
Interest	16.3	16.7	17.9	18.9	17.7	26.2	26.7	27.9	28.8	29.6
Amortization	24.4	23.8	23.5	22.9	22.0	24.8	23.9	23.1	24.0	23.7
Payments to municipalities	20.7	20.9	19.1	18.6	16.3	7.0	3.4	5.3	4.0	5.8
Saskatchewan taxes	3.6	3.2	2.9	4.0	3.0	2.4	2.4	2.2	4.3	7.2
	177.7	176.1	177.0	180.6	169.8	119.9	112.8	113.4	112.3	116.1
Net earnings from operations before the following	11.8	21.0	19.2	5.8	7.3	21.4	26.8	26.2	43.3	49.8
Commodity revenue	374.5	386.4	374.4	377.3	318.4	-				
Cost of gas sold	(419.6)	(351.5)	(405.6)	(418.5)	(376.7)	-				
Saskatchewan Energy Share	53.6					-				
Gain (loss) on commodity sales	8.5	34.9	(31.2)	(41.2)	(66.3)	-				
Net earnings (loss)	20.3	55.9	(12.0)	(37.4)	(65.0)	21.4	26.8	26.2	43.3	49.8
STATEMENT OF FINANCIAL POSITION										
ASSETS										
Current assets	344.0	268.3	228.3	202.5	280.5	23.9	13.7	42.9	54.6	58.5
Property, plant & equipment, & natural gas in storage	405.6	407.0	404.4	400.1	396.5	522.1	525.6	527.5	529.1	533.8
Investments & other assets	3.9	6.3	7.1	7.8	8.5	2.2	3.8	4.5	5.2	5.9
	753.5	681.6	639.8	610.4	685.5	548.2	543.1	569.9	588.9	598.2
LIABILITIES AND EQUITY										
Current liabilities	313.8	223.8	176.9	151.6	218.4	100.1	148.0	78.5	61.6	67.9
Long-term debt	245.1	238.6	251.6	266.1	268.0	277.4	220.6	314.5	335.1	338.1
	558.9	462.4	427.5	417.7	486.4	377.5	368.6	393.0	396.7	406.0
Equity	194.6	219.2	212.3	192.7	199.1	170.7	174.5	176.9	192.2	192.2
	753.5	681.6	639.8	610.4	685.5	548.2	543.1	569.9	588.9	598.2

The Other category includes Bayhurst Gas Limited, Many Islands Pipe Lines (Canada) Limited, Saskatchewan First Call Corporation, SaskEnergy International Incorporated, Swan Valley Gas Corporation, and SaskEnergy Nova Scotia Holdings Ltd.

OTHER[1]					INTERCOMPANY[1]					CONSOLIDATED ENTITY				
2005	2004	2003	2002	2001	2005	2004	2003	2002	2001	2005	2004	2003	2002	2001
2.9	1.8	0.6	0.6	0.5	(6.6)	(7.4)	(7.2)	(5.3)	(3.5)	156.2	162.3	164.8	166.7	166.1
3.8	3.5	3.6	2.6	3.6	(50.3)	(61.2)	(58.9)	(58.2)	(59.9)	87.8	98.4	91.0	87.0	88.8
34.0	28.9	30.6			1.9	3.8	5.9	(13.0)	1.5	42.1	36.5	36.5	13.6	38.5
										27.7	23.1	24.4	22.8	22.1
7.6	7.0	7.5	4.6	8.1	(3.4)	(3.0)	(3.1)	2.1	(3.4)	6.9	5.9	8.1	3.7	4.4
48.3	39.2	42.1	8.8	10.2	(58.4)	(68.0)	(63.3)	(74.3)	(64.3)	320.7	311.4	312.8	273.8	280.9
5.2	5.1	6.2	2.5	2.3	(54.9)	(55.3)	(51.3)	(60.1)	(59.5)	122.5	117.1	113.4	111.8	109.6
1.5	2.2	1.1	1.0	1.3	3.0	3.9	4.6	3.4	4.6	47.0	49.5	52.1	52.1	53.2
2.1	1.0	2.2	0.7	1.5		0.9				51.3	49.8	50.8	47.9	47.2
										27.7	23.1	24.4	22.8	22.1
0.9	0.6	0.7	0.7	0.6						6.9	6.2	5.9	9.0	10.8
9.7	8.9	10.0	4.9	5.7	(51.9)	(50.5)	(46.7)	(56.7)	(54.7)	255.4	247.5	244.5	243.1	242.9
38.6	30.3	31.5	3.9	4.5	(6.5)	(8.0)	(9.6)	(17.1)	(9.6)	65.3	70.1	68.3	31.5	46.0
1.6	0.6	0.4	0.3	0.1	-	-	(0.3)	(0.3)	-	376.1	387.0	374.1	377.3	370.5
(1.6)	(0.7)	(0.7)	(0.3)	(0.1)	2.9	2.9	5.1	16.9	4.9	(418.3)	(349.7)	(402.9)	(401.9)	(371.9)
-	-	-	-	-	-	-	-	-	-	53.6	-	-	-	-
-	(0.1)	(0.3)			2.9	2.9	4.7	16.6	4.9	11.4	37.1	(27.3)	(24.6)	(61.4)
38.6	30.2	31.2	3.9	4.5	(3.6)	(5.1)	(4.9)	(0.5)	(4.7)	76.7	107.2	41.0	6.9	(15.4)
8.5	4.2	7.8	5.4	5.2	(12.6)	(6.1)	(4.9)	(30.2)	(58.9)	363.8	280.1	233.1	232.3	285.3
47.8	42.2	40.4	20.3	20.6	(0.5)	(0.3)	-	-	1.2	975.0	934.5	967.1	949.5	952.1
27.2	24.7	24.0	15.8	12.9	(1.1)	(3.0)	(0.8)	0.8	(0.5)	32.2	31.9	34.8	29.6	26.8
83.5	71.1	72.2	41.5	38.7	(14.2)	(9.4)	(46.7)	(29.4)	(58.2)	1,371.0	1,286.4	1,235.2	1,211.4	1,264.2
22.4	18.0	25.4	10.3	9.2	(41.4)	(39.6)	(18.5)	(9.2)	56.6	394.9	371.1	298.3	302.7	352.1
21.3	16.1	15.5	13.6	13.7	38.5	44.0	46.3	(0.2)	(0.2)	582.3	569.3	627.9	614.5	619.6
43.7	34.9	40.9	23.9	22.9	(2.9)	73.5	64.8	78.9	56.4	977.2	940.4	926.2	917.2	971.7
39.8	36.2	31.3	17.6	15.8	(11.3)	(63.9)	(111.5)	(108.3)	(114.6)	393.8	316.0	309.0	294.2	292.5
83.5	71.1	72.2	41.5	38.7	(14.2)	(9.4)	(46.7)	(29.4)	(58.2)	1,371.0	1,286.4	1,235.2	1,211.4	1,264.2

The Intercompany category includes general corporate assets, liabilities, revenue and expenses, and also reflects the elimination of intercompany transactions required upon consolidation.

Corporate Governance

SaskEnergy is a statutory Crown corporation which is governed by *The SaskEnergy Act* and *The SaskEnergy Regulations*. The Board of Directors (the Board) oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board is accountable to the Minister Responsible for SaskEnergy, who functions as a link between the Corporation and Cabinet, as well as the Provincial Legislature.

The Board is responsible for the stewardship of the Corporation. In carrying out this responsibility, the Board participates in the Corporation's strategic planning process each year and approves the strategic direction, budget and corporate plan. The Board also exercises its responsibility to oversee and ensure adherence to *The SaskEnergy Act*.

SaskEnergy's Board of Directors is representative of Saskatchewan community and industry. The Lieutenant Governor in Council, pursuant to *The SaskEnergy Act*, appoints Board members. Members possess a variety of significant attributes, including industry expertise, strategic leadership, entrepreneurial and communication skills, integrity, flexibility, sound judgment and initiative. Board members are committed to serving the Corporation, and in so doing, serving Saskatchewan people through emphasis on promoting customer service, productivity, profitability, co-operation and sound environmental stewardship.

The Board established the following five committees to assist in discharging specific areas of Board responsibility:

- Audit and Finance Committee
- Governance Committee
- Human Resources/Compensation Committee
- Safety, Health and Environment Committee
- Business Development Committee

AUDIT AND FINANCE COMMITTEE

Chair: Mike Chorlton

The mandate of the Audit and Finance Committee is to assist the Board of Directors in meeting their responsibilities by ensuring the adequacy and effectiveness of the financial reporting, internal controls, management information systems and risk management. In addition, it ensures that the Board is provided with financial plans and proposals consistent with the Corporation's overall strategic plan, budget and public policy objectives.

GOVERNANCE COMMITTEE

Chair: Heather Heaven

The Governance Committee is responsible for the development and maintenance of SaskEnergy's corporate governance practices. Among other things, its duties include evaluating the performance of the Board and committee chairs and directors and establishing appropriate Board and Board committee structure, composition and mandate.

HUMAN RESOURCES/COMPENSATION COMMITTEE

Chair: Ralph Hesje

The Human Resources/Compensation Committee mandate is to oversee SaskEnergy's human resource strategies, programs and practices to ensure that SaskEnergy is a corporate leader in the development and implementation of proactive human resource strategies, compensation and succession planning.

SAFETY, HEALTH AND ENVIRONMENT COMMITTEE

Chair: Eldon Lindgren

The Safety, Health and Environment Committee mandate is to oversee the development and implementation of policies to ensure the Corporation is proactively addressing safety, health and environmental issues and is in compliance with all statutory requirements.

BUSINESS DEVELOPMENT COMMITTEE

Chair: George Lafond

The Business Development Committee mandate is to provide advisory, monitoring and oversight functions related to the Corporation's investments in and for Saskatchewan.

SaskEnergy's approach to corporate governance practices is substantially consistent with the guidelines set forth in the Canadian Institute of Chartered Accountants (CICA) Handbook and the new Canadian Securities Administrators (CSA) Corporate Governance Guidelines (National Policy 58–201), and Guidelines for Disclosure of Corporate Governance Practices (National Instrument 58-101). The National Policies address the key areas of responsibility for effective corporate governance, including responsibility for stewardship of the Corporation, the Board's role in working with management and the functioning of the Board. SaskEnergy's corporate governance practices are benchmarked against the National Policy Guidelines in the following Governance Scorecard.

CSA GUIDELINES NATIONAL POLICY 58-201 AND NATIONAL INSTRUMENT 58-101 DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES	SASKENERGY'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH CSA GUIDELINES
1 BOARD OF DIRECTORS COMPOSITION The board should have a majority of independent directors.	There are ten individuals appointed to the SaskEnergy Board. There is a majority of independent directors.	Yes
Disclosure of significant shareholders (ability to exercise the majority of votes to elect directors).	SaskEnergy as a statutory Crown corporation does not have any issued share capital. Although CSA review of governance of controlled companies is in progress, this feature is not applicable to SaskEnergy.	Not applicable
a) Disclose the identity of directors; and b) Describe who is independent and the basis for the determination of independence.	Mervyn J. Simon, Chair, INDEPENDENT Vice President, Special Projects, Glencore Resources Limited Heather D. Heaven, Vice Chair, INDEPENDENT Assistant Professor of Law, University of Saskatchewan Michael W. Chariton, INDEPENDENT President & CEO, Parkland Income Fund Ralph Hesje, INDEPENDENT President, Wilbros MSI Canada Inc. George E. Lafond, INDEPENDENT Special Advisor to the President on Aboriginal Initiatives, University of Saskatchewan Jean Weimer, NOT INDEPENDENT Assistant to the President of CEP Union, Local 649 (company employee on leave for Union business) Nadine Krenosky, INDEPENDENT Vice President, Compliance, Greystone Managed Investments Inc. Florence Norman, INDEPENDENT Communications, Protection & Control Development Engineer I, SaskPower Eldon Lindgren, INDEPENDENT Lawyer, Lindgren, Blais, Frank and Illingworth Donald Ching, INDEPENDENT President & CEO, COGEMA Resources Inc. (Appointed as a Board member – March 23, 2005)	Yes

	For the independent Directors, none of them, or their "associates," have worked with or for the Corporation or have material contracts or relationships with the Corporation, or have received remuneration from the Corporation in excess of the fees and compensation as Directors and Committee members or as Directors of subsidiaries of the Corporation.	
c) Indicate whether directors are directors of any other issuer that is a reporting issuer.	Not applicable as SaskEnergy does not have share capital, and is therefore not an issuer.	Not applicable
d) Do directors hold regularly scheduled in-camera meetings to facilitate open and candid discussion. If so, how many meetings were held in the previous 12 months?	The Board meeting procedures are such that at each regular meeting the Board conducts an in-camera session whereby Management is excused from the meeting. The Board held nine regular meetings in 2005.	Yes
e) The chair should be independent to provide leadership for the directors.	The Board structure at SaskEnergy is such that the Chair of the Board is independent.	Yes
f) Disclose the attendance record of each director for board meetings held in the most recently completed financial year.	There were 16 Board meetings in the calendar year 2005. The following are the attendance statistics for Board meetings:	Provided

DIRECTOR	BOARD MEETINGS ATTENDED
Mervyn Simon, Chair	16 of 16
Heather Heavin, Vice Chair	14 of 16
Donald Ching*	7 of 10
Michael Charlton	16 of 16
Ralph Hesje	16 of 16
Nadine Krenosky	16 of 16
George Lafond	16 of 16
Florence Norman	14 of 16
Eldon Lindgren	16 of 16
Jean Weimer	14 of 16

* Donald Ching was appointed to the Board on March 23, 2005.

For the purposes of this report, members who attended meetings in part, were considered to be present.

2 BOARD MANDATE The board should adopt a written mandate which explicitly acknowledges responsibility for the stewardship of the corporation and delineates the board's roles and responsibilities, including responsibility for:	The Board has a formal mandate with responsibility to function as stewards of the Corporation, and has the obligation to manage the affairs and business of the Corporation. While the fundamental objective of the Board is to act in the best interests of the Corporation, the Board has a responsibility to ensure congruence between shareholder expectations, corporate plans and management performance. The Board's Terms of Reference will be available in 2006 on the Corporation's website at www.sankoenergy.com	Yes
a) Satisfaction regarding the integrity of the CEO and executive and the creation of a culture of integrity.	The Board acts in accordance with the governing legislation, the Corporation's Code of Business Conduct and Ethics and the Board's Terms of Reference. In 2005, the Code of Business Conduct and Ethics was revised and all employees including the CEO and Executive were required to complete a mandatory training session on the Code. Issues arising under the Code of Business Conduct and Ethics are reported to and monitored by the Governance Committee.	Yes
b) The adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business.	One of the Board's principal duties is to provide leadership in setting the Corporation's long range strategic direction and to approve the Corporation's overall strategic plan. The Corporation's comprehensive strategic planning process results in the annual review and approval by the Board of the Corporation's Strategic Plan, Annual Operating and Capital Budget and Financial Plan. In addition, the Board conducts an annual comprehensive strategy session with Senior Management, at which the Board reviews and assesses the performance of the Corporation and its subsidiaries, reviews business plans, reviews the opportunities and risks of the Corporation's business, and reviews short term and long term objectives for the Corporation, including discussing and approving strategies to meet these objectives. Management must seek the Board's approval for any transaction that would have a significant impact on the Strategic Plan.	Yes
c) The identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks.	The Board identifies the principal risks of the Corporation on an annual basis and directly or through the Audit and Finance Committee, monitors the Corporation's risk management programs, in addition to overseeing the implementation of appropriate systems to manage those risks. The Audit and Finance Committee meets regularly to review reports and discuss significant risk areas with internal and external auditors.	Yes

d) Succession planning, including appointing, training and monitoring senior management;	The Human Resources/Compensation Committee of the Board annually reviews the adequacy of the Corporation's succession planning strategy, performance targets, and the performance evaluations of the Executive Officers of the Corporation. The Board supports Management's commitment to training and development of all employees.	Yes
e) A communications policy for the corporation;	SaskEnergy is committed to the principles of transparency, openness and timeliness in communications with its shareholder, employees, stakeholders and the public.	Yes
	The Corporation complies with communication requirements set by the shareholder and by statute, and is in the process of developing a formal external communications policy. A draft Policy has been reviewed by the Governance Committee and it is expected to be brought to the Board for approval in the first quarter of 2006.	(In progress)
f) The integrity of the corporation's internal control and management information systems;	While the Board is responsible for risk management, the Audit and Finance Committee is responsible for oversight of financial reporting, internal controls and management information and risk management systems for the Corporation. This Committee reviews the integrity of the internal control processes and financial management information systems in conjunction with the internal and external auditors.	Yes
g) Development of approach to corporate governance, principles and guidelines;	The Governance Committee is mandated to be responsible to the Board for governance of SaskEnergy, including issues related to governance and conflict of interest involving Directors and Senior Executives. The Governance Committee annually prepares an Ethics Advisor report to the Board on any issues dealt with in the preceding 12 months. The Governance Committee has directed that the Corporation undertake a governance review project to review the principles and guidelines, roles, responsibilities, authorities and accountabilities regarding governance practices at the Corporation to benchmark those practices to national best practices.	Yes

b) General mandate re: stakeholder feedback, and expectations and responsibilities of directors	To facilitate feedback from employee stakeholders, the Board has adopted a Whistleblower Policy. The Whistleblower Policy provides a procedure to contact the Board. The Chair of the Board participates in a Crown Investments Corporation Chair forum conducted by the statutory shareholder, where feedback and communication is provided to all Crown corporation Board Chairs on the expectations of the statutory Shareholder.	Yes
	Building on the base of Directors duties outlined in legislation and the Terms of Reference the Governance review will bring additional clarity regarding the procedural expectations and responsibilities of Directors. It is anticipated that the Governance review of the Board and Committee Terms of Reference will be completed in the first quarter of 2006.	(In progress)
3. POSITION DESCRIPTIONS a) The board should develop position descriptions for the chair of the board and chair of each board committee.	The Board Chair operates within the statutory requirements of *The SaskEnergy Act*.	Yes
	The Governance Committee of the Board has reviewed and recommended approval of enhanced position descriptions for the Chair of the Board and Chairs of the Board Committees within its Governance review, and it is expected that they will be approved by the Board in the first quarter of 2006.	(In progress)
b) Together with the CEO, develop a position description for the CEO delineating management's responsibilities and approving corporate goals and objectives that the CEO is responsible to meet.	The Board has developed the Board's Terms of Reference which outline the responsibilities for the Board and Management. The Board has also approved policies for the execution of documents and expenditure authorities for the CEO and Senior Management. These policies clearly outline the limits to Senior Management's authorities and the levels for which matters must receive Board approval. The existing job description for the CEO will be reviewed in the Governance review project and will result in the creation of a more detailed position description for the CEO in 2006.	Yes
4. ORIENTATION AND CONTINUING EDUCATION The board should ensure new directors receive comprehensive orientation and fully understand the role and the contribution they are expected to make; and, the board should provide continuing education opportunities for all directors.	The Board has approved a Board of Directors Training Policy which outlines the Corporation's commitment to the orientation and training of its incoming Board members and the ongoing training and industry education for current Board members. This Policy outlines the comprehensive orientation material to be provided to incoming Board members. As part of the ongoing training for Board members, the Corporation provided an industry training session and Crown Investments Corporation has facilitated additional training sessions as part of its Subsidiary Crown Directors Training Program for Board members in 2005.	Yes

CSA STANDARD NATIONAL POLICY 58-201 AND NATIONAL INSTRUMENT 58-101 DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES	SAMARCO'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH CSA GUIDELINES?
5. CODE OF BUSINESS CONDUCT AND ETHICS		
a) The board should adopt a written code of business conduct and ethics applicable to directors, officers and employees of the corporation which is designed to promote integrity and deter wrongdoing. The code should address conflicts of interest, protection, proper use of corporate assets and opportunities, confidentiality, fair dealing, compliance with laws, rules and regulations and provide a mechanism to report illegal or unethical behavior.	The Board has approved and adopted a written Code of Business Conduct and Ethics (the "Code"), which is applicable to all employees, officers and directors of the Corporation. The Code, which is designed to promote integrity and deter wrong doing, is based on values of fairness and honesty, equal treatment and accountability. The Code provides guidelines on handling information of the Corporation's assets, confidentiality, conduct with suppliers and customers, business history, International business, conflicts of interest, compliance with laws and policies and reporting. Employees of the Corporation received mandatory training in 2005 on the Code and the Corporation's Privacy policies, which are posted on the Corporation's Intranet site. A Whistleblower Policy was approved by the Board in November 2005 to promote reporting of any irregularities. Employees will receive training on the Whistleblower Policy in 2006. In addition, Directors of the Corporation are required to abide by the Crown Investments Corporation's Directors' Code of Conduct. The Governance Committee, as the Ethics Advisor to the Board, is required to administer, monitor and enforce the Directors Code of Conduct, which includes reporting annually to the Board concerning compliance. Also, it is standard procedure that the first item on the agenda for any regular Board meeting is an opportunity for Board members to declare any Conflicts of Interest, or any changes to outside employment or directorships they hold which may create a potential conflict of interest.	Yes
b) The board should monitor compliance with the code and grant any waivers required for directors and executive officers. Any waivers for a material departure from the code for any directors or officers should be granted by the board.	The Human Resources/ Compensation Committee is required to monitor compliance with the Code of Business Conduct and Ethics. Any irregularities raised under the Whistleblower Policy will be reported to the Governance Committee. In addition, the Audit and Finance Committee is required to monitor the effectiveness of financial controls and receive reports of internal and external auditors on the adequacy of those controls. In 2005, there have been no waivers granted by the Board.	Yes

THE GUIDELINES (NATIONAL POLICY 58-201 CORPORATE GOVERNANCE GUIDELINES)	SASKENERGY'S CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH SEN GUIDELINES
6. NOMINATION OF DIRECTORS		
a) The board should appoint a nominating committee composed of entirely independent directors, with a written charter establishing the committee's purpose, responsibilities, member qualifications, appointment, removal, structure and operations.	The Corporation does not have a nominating Committee. SaskEnergy's Governance Committee is responsible for annually assessing the size, composition, required qualifications of the Board to determine whether it has the necessary constituents for effective decision making. All of the Governance Committee members are independent. The Governance Committee has authority to engage and compensate any outside advisor it determines necessary to assist with carrying out its duties. In carrying out these functions, the Board considers the advice and the input of the Governance Committee, and makes recommendations to the Corporation's statutory shareholder who is given the Legislative authority to appoint Directors pursuant the Crown Investments Corporation Crown Board Appointment Policy.	Yes
b) The board should adopt a nomination process which first considers the competencies and skills of the board as a whole, assesses the competencies and skills possessed by each existing director, and identifies competencies and skills each new nominee would bring to the board, including the ability to devote sufficient time, and resources to the job.	The Governance Committee is charged with preparing skills and competencies assessments for the Board and its Committees, and performing a gap analysis intended to assist achieving a balance of the skills of Board members through the appointment of new members. The Governance Committee is also responsible for the ongoing assessment of Directors, their training and skill set review. Development of position descriptions for the Chair of the Board and the Chairs of Board Committees and independent Directors will assist in determining skill training opportunities. These will be finalized in 2006. *(For reference: The SaskEnergy Act* requires appointment of Directors through Order in Council, and sets a limitation on Board's Authority to appoint - recommend only).	Yes
7. COMPENSATION		
a) The board should appoint a compensation committee composed from entirely independent directors, with a written charter to establish the committee's purpose, responsibilities, member qualifications, appointment, removal, structure, operations and manner of reporting to the board.	The Human Resources/Compensation Committee is comprised of independent directors, other than Jean Wimmer, who as a unionized employee on leave from the Corporation, has a material relationship, and is therefore not independent. This Director does not receive any material or minutes related to management compensation or collective bargaining, and is excluded from any Board or Committee discussion on those topics.	No
	The Corporation has appointed a Human Resources/Compensation Committee which has the responsibility to make recommendations to the Board. Written Terms of Reference have been established for the constitution and operations of the Committee, and the Committee has been given the authority to engage and compensate any outside advisor it deems necessary.	Yes
	Outside consultants, Deloitte & Touche, LLP Chartered Accountants were retained by the statutory shareholder, Crown Investments Corporation in 2005 to prepare a report on Crown sector compensation for executive officers.	Yes

CSA STANDARD: NATIONAL POLICY 58-201 AND NATIONAL INSTRUMENT 58-101 DISCLOSURE OF CORPORATE GOVERNANCE PRACTICES	GOVERNANCE & CORPORATE GOVERNANCE PRACTICES	CONSISTENT WITH CSA GUIDELINES?
b) The compensation committee should be responsible for reviewing and approving corporate goals and objectives relative to the CEO's compensation, the CEO's performance in light of those corporate goals and objectives, and determining the CEO's compensation level based on the evaluation, as well as reviewing executive compensation prior to public disclosure.	The Human Resources/Compensation Committee annually reviews with the CEO, the performance targets and performance evaluation of the CEO and the Executive Officers. The CEO's performance is assessed against the Corporation's annual objectives. The results of the CEO's performance are reported to the full Board. The Human Resources/Compensation Committee and the Board review all compensation payments to the Executive officers through the publication of Crown Payee reports prior to public disclosure.	Yes
c) The compensation committee should be responsible to make recommendations to the board with respect to director compensation.	The Human Resources/Compensation Committee is responsible for annually reviewing the compensation for the Board members and the Chair, and recommending to Crown Investments Corporation for approval any proposed adjustments to compensation levels. Crown Investments Corporation is mandated by legislation to fix the remuneration and rate of reimbursement for expenses of directors.	Yes
8. OTHER BOARD COMMITTEES Identify standing committees other than audit, compensation and nominating, and describe their function.	In addition to the Audit and Finance, Human Resources/Compensation, and Governance Standing Committees of the Board, the Board has appointed a i) Safety, Health and Environment Committee; and ii) Business Development Committee. These Committees are comprised solely of independent members, except for the Safety, Health and Environment Committee, where Jean Weimer, who, as a unionized employee on leave from the Corporation, has a material relationship with the Corporation and is therefore considered a non-independent member. The majority of the Committee members are independent. The constitution, function and mandate of each of the Board Committees are set out in the Terms of Reference for each Committee, as adopted by the Board.	Yes

9 BOARD ASSESSMENTS The Board, its committees and each individual director should be regularly assessed with respect to their effectiveness and contribution in terms of the board or committee's terms of reference, or an individual director's position description and competencies and skills.	The Governance Committee is responsible for implementation of performance evaluations for the Board, each Committee, the Chair and individual Directors. The Committee surveys Directors to provide feedback on the effectiveness and contribution of the Board, Committees, Chairs and individual Directors on a rotational, bi-annual basis. The results are summarized and reported to the Board, as well as the Board of the Crown Investments Corporation.	
	For 2005, the process consisted of the individual Board members completing the evaluation surveys on the effectiveness and performance of the Board. The survey results were summarized and reported to the Board and to Crown Investments Corporation's Board of Directors. The 2005 process was conducted with the assistance of an external consultant under the guidance of the Governance Committee.	Yes
	In addition, for 2005 the Board completed a Board Chair evaluation. A summary report was provided to the Governance Committee and to Crown Investments Corporation's Board of Directors.	Yes

Supplementary Information

JOULE (J)

A base metric measure of energy. One J is the equivalent of the energy required to raise the temperature of one gram of water by approximately one quarter of one degree Celsius.

GIGAJOULE (GJ)

A measure of energy used to express the heating value of natural gas or of energy consumed. One GJ is equivalent to one billion J. An average home uses about 130 GJ per year.

TERAJOULE (TJ)

A unit of energy equivalent to 1,000 GJ.

PETAJOULE (PJ)

A unit of energy equivalent to 1,000,000 GJ.

CUBIC METRE (M^3)

A unit of volume measurement commonly used to express the amount of natural gas sold to consumers. The typical home uses about 3,550 m^3 of gas per year.

- One GJ of natural gas would fill an 11 foot by 11 foot by 8 foot room (approximately 1,000 cubic feet).
- One TJ of natural gas would fill a typical professional hockey arena (approximately 1,000,000 cubic feet).
- One PJ of natural gas would fill 17 sports stadiums the size of the Rogers Centre, formerly known as the SkyDome (approximately 1,000,000,000 cubic feet).

SASKENERGY INCORPORATED NATURAL GAS
TRANSMISSION PIPELINES

MAJOR NATURAL GAS PIPELINES OF CANADA
AND THE NORTHERN UNITED STATES

SaskEnergy

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2005 CORPORATE SOCIAL RESPONSIBILITY REPORT

President's Message

2005 was our Centennial Year – a time when people from around the Province celebrated our achievements over the past century, and looked ahead to another 100 years of prosperity and possibility. All across the Province, people gathered and celebrated in a common theme that ties all Saskatchewan people together: pride, support for one another, and a strong belief in what we can accomplish.

These values are uniquely Saskatchewan, reflecting the homesteading spirit our Province was founded on 100 years ago and that continues to grow from today. These values are also reflected in SaskEnergy's culture.

For us to achieve our vision, we focus on six key strategic mandates: safe and reliable operations; competitive rates; customer service excellence; delivering shareholder value; community and environmental responsibility; and engaging employees. Although the latter two mandates are centrepiece in our Corporate Social Responsibility (CSR) reporting, we believe that responsible behaviour in its most complete form is not just philanthropy, but responsibility. It's about a balance between our corporate interests and the interests of communities – communities of people, of ideas, and of values. Good business practices can be analyzed or measured individually, but only until everything we do as a company is collectively examined can we understand our full impact on the communities we serve.

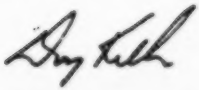
With respect to the two key strategic mandates discussed in our 2005 CSR Report, over time we have seen an evolution in our processes, outcomes and reporting. Seven years ago, when we introduced our first community investment report, our focus was geared mainly towards explaining what we're doing to help positively impact Saskatchewan people and communities. At the time, there was no explanation or measured results to accurately determine how and where a difference was made. According to the Conference Board of Canada, this approach was typical of many companies at the time – organizations that were just beginning to find their footing with regards to CSR, and just beginning to understand CSR's meaning and impact.

But over the past eight years our reporting has matured from a focus on processes, to a frank and open discussion of the outcomes – including a movement towards more transparency, accountability and a dedication to making improvements wherever and whenever possible. SaskEnergy's 2005 CSR Report is in some respects designed much differently than past reports. Although scorecard reporting is still an important component, we've taken a closer and more precise look at what our measures are, why we've chosen them and why they're important. And in this discussion is also an analysis of where we've met our objectives, where we have not, and what improvements are necessary to help us achieve our vision.

To achieve SaskEnergy's vision of core business excellence, we aspire to six strategic mandates. These play a crucial role in our planning, reporting and measurement, and are developed in accordance with the highest benchmarks possible.

But what lies behind the numbers or the analysis is what we believe is the backbone of our commitment to CSR – our employees. More than 900 men and women share the same values that were celebrated by other Saskatchewan people during our Centennial Year. They carry our commitment to CSR throughout the company, through the activities they undertake every day, whether it is through their daily work, or their own work in the community. They are a testament to our success as a company.

Over time our reporting will continue to evolve, with a focus on strategic goals and measurements, alongside a steadfast dedication to being a socially responsible company that is proud to serve our stakeholders – the people of Saskatchewan.



Doug Kelln
President and Chief Executive Officer

"A significant body of knowledge has emerged to suggest that corporations that voluntarily conduct themselves in a socially responsible manner stand to benefit from those actions. Depending on the particular circumstances and specific business drivers of a corporation, its ability to engage in CSR can help to manage risks, as well as to identify and capture new business opportunities. The challenge for individual Canadian corporations is to identify which drivers and dimensions of CSR are most relevant to their business." Source: Conference Board of Canada, The National Corporate Social Responsibility Report, *2004*

Community and Environmental Responsibility

OBJECTIVE: Maintain leadership in corporate social responsibility and environmental stewardship.

SPONSORSHIPS AND COMMUNITY INVESTMENTS

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Community relations investment ($ millions)	1.45	1.43	1.59	1.56	1.56	1.56	1.56
Number of projects supported	1,334	1,265	1,271	1,300	1,300	1,300	1,300
Number of communities impacted	270	293	290	270	270	270	270

Three specific and highly targeted measures allow SaskEnergy to create a broad social footprint on the Province: our financial investments or donations; the number and diversity of projects we support; and the number of communities we impact by supporting these initiatives. Because our earnings vary each year, we will no longer use an earnings-based measure to determine our level of community relations investment. We aim to have a broad-ranging impact on our Province, as evidenced by our targets set for the future.

In terms of the number of projects we support, our measurement is based on two factors: the number of requests we receive, and the guidelines we have set up to determine which types of projects we should support. Our Share the Warmth Fund is one program we've developed to support projects with donations of up to $2,500. Four distinct categories comprise this fund and help us spread our investment to many initiatives that are important to Saskatchewan people: Education and Leadership, Community Initiatives, Saskatchewan Pride, and Environmental Stewardship. In 2005, more than $112,000 was invested through the Share the Warmth Fund primarily in rural Saskatchewan.

Fast Fact: Since 2000, SaskEnergy has supported nearly 6,000 projects across Saskatchewan.

Besides the Share the Warmth Fund, we also extend our support through two other areas: a general sponsorship fund, through which more than $930,000 was invested in 2005, and an Aboriginal Sponsorship Fund, which invested approximately $227,000 into Aboriginal cultural, educational and sporting events across Saskatchewan in 2005.

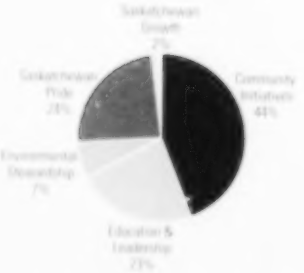
Our community investment activities are also measured by the number of urban and rural locations we support each year. We are Saskatchewan's natural gas provider, serving more than 90% of the population, and we strongly believe our sponsorships and community investments should be directly targeted to the places where our stakeholders live. Year over year, we have targeted between 250 and 300 communities to support.

Through Share the Warmth Fund activities, 124 communities were impacted across the Province in 2005.

More information about the Share the Warmth Fund and how organizations can apply, can be found at www.saskenergy.com/community/fund.asp

**Includes cash donations only. No in-kind contributions included in these figures.*

2005 CASH DONATIONS BY CATEGORY



Although our financial impact on the Province is an important component of our community relations portfolio, we also continued building a successful brand reputation around the theme of "Champion of Volunteers," which allows us to provide community support in ways that go beyond making donations.

We had an excellent opportunity to position ourselves as a volunteer supporter through our involvement in the **2005 Jeux du Canada Summer Games**. As one of the largest initiatives within our community investment portfolio for the year, and our largest sponsorship to date, SaskEnergy was the official sponsor of volunteers for the Games. We attributed more than three quarters of a million dollars worth of in-kind support such as office space for Games staff, seconded SaskEnergy employees, and SaskEnergy's natural gas flame and natural gas vehicle for use during the Games. In addition, more than 100 SaskEnergy and TransGas employees donated countless volunteer hours for the Games.

For the second year in a row SaskEnergy expanded our involvement in **Global Youth Service Day** (GYSD) – the largest youth led volunteering initiative in the world. SaskEnergy is the only Saskatchewan company to participate in this international event, where we partner with Volunteer Canada to encourage volunteerism among Saskatchewan youth. Three volunteer recognition award categories were developed, offering up to $1,000 of seed money for selected schools or youth organizations to help fund winning projects – in the areas of community spirit, environmental action and volunteer leadership. Over the last two years, 22 schools and youth groups have received a SaskEnergy GYSD award for community and environmental services with approximately $12,000 given by SaskEnergy in funding grants to assist with proposed projects.

SaskEnergy has encouraged employee volunteerism since 1999, with more than 4,000 recorded hours donated by employees from across the Province.

Only 21% of the top 300 companies in Canada publicly report on whether or not they encourage employees to volunteer in the community.

Conference Board of Canada, The National Corporate Social Responsibility Report, 2004

The Share the Warmth Home Energy Efficiency Project was launched as a pilot initiative in October 2005. One hundred low-income Moose Jaw families had the energy efficiency of their homes improved through the help of volunteers from SaskEnergy, TransGas, the Salvation Army, SIAST Palliser, the Moose Jaw Fire Department, Firefighters Union, and the Office of Energy Conservation. Upgrades included installing bathroom and kitchen faucet aerators, low-flow showerheads and smoke-detectors, installing compact fluorescent light bulbs, placing film on windows to prevent drafts, applying weather-stripping and caulking, replacing furnace filters and installing programmable thermostats.

As part of our corporate support for Saskatchewan's Centennial, SaskEnergy participated in a number of activities throughout the year, including the **Saskatchewan Centennial 2005 Peace Project.** Partnering with the Red Cross and Saskatchewan Centennial 2005, SaskEnergy helped develop three major initiatives: peace poles located at 101 locations across the Province; a "Designs on Peace" contest, where 100 pieces of artwork were selected to form a permanent tile display of the dreams Saskatchewan youth have for living in a peaceful and caring society; and Hear the Children Peace Day, where students in Moose Jaw, Regina and Saskatoon shared their messages of peace and celebrated Saskatchewan's Centennial.

Volunteers helped improve the energy efficiency of 100 homes in Moose Jaw, through the first ever Share the Warmth Home Energy Efficiency Project.

Targets for 2006 in the area of sponsorships and community investments will remain in line with past targets, but SaskEnergy will continue looking for new and unique opportunities to leverage our support and increase our impact on the communities we serve.

Other key directives for 2006 will focus on better aligning community investment activities with the corporate business plan, and engaging and recognizing employees for the important contribution they make to shaping the company's reputation through community action. In particular, a new volunteerism policy will be implemented and communicated to employees ensuring consistent and equitable volunteer opportunities across the company.

SaskEnergy will also create a strategic approach for capital sponsorship requests. These requests have grown in number considerably over time, representing a need for large investments that support major community endeavours.

Danny Foster Day celebrations in Regina: students from across the city gathered in a spirit of hope to share their visions for a better world.

SASKATCHEWAN
Energy Share

Assistance for today, solutions for tomorrow

To help make it easier and more affordable for Saskatchewan residents to improve the long term energy efficiency of their homes, in November 2005 the Government of Saskatchewan introduced a series of long term energy conservation programs as part of the Saskatchewan Energy Share. Several of these programs are applicable to SaskEnergy customers:

- Expansion of the PST exemption on ENERGY STAR® appliances to include furnaces and boilers. There is also a $400 grant for qualified furnaces and boilers purchased and installed between September 1, 2005 and November 7, 2005;
- A $45 rebate on ENERGY STAR qualified programmable thermostats;
- Matching of the federal grant up to $2,000 for changes made after an EnerGuide for Houses follow-up audit;
- Expansion and cost-sharing of the federal EnerGuide program for low-income households; and
- A new Saskatchewan EnerGuide program for moderate income homeowners.

OBJECTIVE: Maintain leadership in corporate social responsibility and environmental stewardship.

ENVIRONMENTAL STEWARDSHIP

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Annual greenhouse gas emission reduction (tonnes)	16,450	9,500	11,640	12,000	7,000	8,000	7,000
Cumulative greenhouse gas emission reduction (tonnes)	103,850	113,350	124,995	125,350	132,000	140,000	147,000
Percentage of overall 2012 Kyoto Accord target	62	67	74	74	78	83	87
Increase overall corporate recycling	New in 2005		N/A	20%	Not used for 2006 onward		
Wildlife and habitat protection collaborations with external environmental organizations	New in 2005		28	20	Not used for 2006 onward		

Note: The greenhouse gas drivers and targets have been changed in this table to reflect the transition from a Kyoto-driven goal to a new Federal Government regulation called Large Final Emitters (LFE).

GREENHOUSE GAS (GHG) EMISSIONS

In December 1997, the Kyoto Accord established a GHG emission reduction target for Canada of 6% below 1990 levels by the year 2012. Considering SaskEnergy's goal of becoming a leader in environmental

stewardship while minimizing our business risks, we voluntarily selected this national target as our corporate goal.

Measurement of GHG emission reduction efforts are determined using in-house measurement and engineering expertise, as well as the services of third-party consultants and auditors.

RECYCLING

Corporate recycling measures were selected for 2005 only because of the company's interest in determining the impact of some of its current resource conservation measures, with the intent to transition these activities into a comprehensive pollution prevention and resource conservation initiative.

COLLABORATIONS WITH ENVIRONMENTAL GROUPS

Environmental stewardship emerged as a key area of focus for SaskEnergy and TransGas when it became a part of our corporate business plan in 2005. Collaboration with environmental organizations provides an important platform to develop strategic partnerships and physically engage people in the process. The employees of SaskEnergy and TransGas recognize that the work we do has an impact on the environment, and understand that our success as a business, and our commitment to being a good corporate citizen, rely on us building strong and effective working relationships with environmental organizations.

GREENHOUSE GAS (GHG) EMISSIONS

In July 2005, blowdown and unit valves were changed out at our Piapot Compressor Station to reduce gas loss. Field measurements to verify the savings will take place at the end of February 2006, however, based on an engineering evaluation, we estimate that the cost savings will be about $232,000 per year at $9.00/Gigajoule, with environmental savings of 9,370 tonnes of carbon dioxide equivalent (CO_2).

In addition, a drawdown compressor was used on a number of TransGas projects in 2005 and achieved a total gas savings of 20 Terajoules, which translates into over 346.5 tonnes of methane or 7,280 tonnes of CO_2. Only 2,270 tonnes of this saving have been allocated to 2005 as a result of the long-term efforts of SaskEnergy to reduce emissions.

The total amount of GHGs reduced in 2005 therefore exceeds 11,640 tonnes or 97% of our 2005 target.

Other emission reduction projects that have not been counted in the 2005 accomplishments include the results of the line heater efficiency program and the energy efficiency savings in corporate head office. The data used to determine energy savings in these areas – and their associated GHG emissions – will be available in 2006. Therefore, savings from these additional projects will be included in the 2006 CSR Report.

In early June, 40 employees from SaskEnergy and TransGas volunteered their time to help the environment, by planting more than 500 trees at Wascana Lake, in Regina. This project also honoured TransGas employee Gerald Ixby, who passed away in 2004. Gerald was instrumental in TransGas' provincial tree planting program.

RECYCLING

In terms of corporate recycling, seven programs are in place throughout the company for: paper; toner cartridges; batteries; cellular phones; aerosol cans; meter stop repairs; and regulator repairs.

The recycling objective that was created for 2005 did not have a baseline or starting point, making it difficult for us to report on our progress. We finished the bulk of a material use inventory by early July with some additional detailed information collected later in the year. The inventory was based on materials purchased in 2004.

The inventory showed us that the largest amount of materials bought by the Corporation consisted of more than 35,000 batteries, 7,500 aerosol cans, 9,800 meter stops, 1,600 cans of paint, 5,300 natural gas regulators, 44,000 litres of DowTherm triethylene glycol, 200,000 litres of lubricating oils, 175,000 litres of methanol, 15,000 litres of lean oil, 30,000 litres of triethylene glycol, 200,000 envelopes, and 30,000 kilograms of white paper. Many of these materials are used, sent away to our customers, or installed or applied to our pipeline and compression systems, leaving little in the way of recycling opportunities. Materials that are considered hazardous (batteries, aerosol cans, left over paint, lubricating oil, and DowTherm triethylene glycol) are consigned with waste management companies. Some of this waste may be recycled by these companies, however no reports are sent back to SaskEnergy which monitor these amounts.

The materials that are currently being recycled consist of meter stops, regulators, white paper and newsprint. No consistent records of the amounts recycled are kept

Toner cartridges from SaskEnergy's printers are recycled through a national vendor, and proceeds are donated to Food Banks across the Province. One cartridge or cell phone represents 2.5 litres of milk.

GREENHOUSE GAS (GHG) EMISSIONS

Over the last year, the Federal Government has engaged industry and the public in discussions directed at creating regulations that will target a category of businesses called Large Final Emitters (LFE). SaskEnergy and TransGas fall into the LFE sector.

In 2006, SaskEnergy and TransGas revised its GHG objectives to account for the new LFE regulatory regime that will come into effect in 2006. The regulations will establish mandatory emission reduction targets for the period 2008 to 2012. The new proposed target for LFE companies is 15% below year 2000 emissions.

Although this target appears to be less onerous than the Kyoto target for SaskEnergy and TransGas, the new regulations exclude fugitive emissions* from the accounting process. This means that all of the work that the company has done to reduce its fugitive emissions will not be counted.

Our new focus therefore on the compliance side will concentrate on vented and combusted emissions. In response to this impending change, SaskEnergy and TransGas have re-evaluated their GHG emission reduction targets and have tentatively set new targets commencing in 2006. These targets will require us to reduce GHG emissions by 43,500 tonnes by the year 2012. The new overall target is 168,510 tonnes with approximately 43,500 tonnes still to be achieved.

Emissions released to the air, often due to equipment leaks, evaporative processes, and wind-blown disturbances.

Since 1996 SaskEnergy has reported its activities to reduce GHGs.

70% of the top 300 Canadian companies publicly report on their active management of GHG emissions.

Conference Board of Canada, The National Corporate Social Responsibility Report, 2004

YEAR	AMOUNT REDUCED	CUMULATIVE REDUCTION	AMOUNT REMAINING	PERCENT OF OVERALL TARGET
1996	770	770	167,740	0.46%
1997	20,445	21,215	147,295	12.59%
1998	28,923	50,138	118,372	29.75%
1999	16,947	67,085	101,425	39.81%
2000	9,206	76,291	92,219	45.27%
2001	5,483	81,774	86,736	48.53%
2002	6,228	88,002	80,508	52.22%
2003	15,847	103,849	64,661	61.63%
2004	9,505	113,354	55,156	67.27%
2005	11,640	124,995	43,516	74.18%
2006	7,000	131,994	36,516	78.33%
2007	8,000	139,994	28,516	83.08%
2008	7,000	146,994	21,516	87.23%
2009	7,000	153,994	14,516	91.39%
2010	8,000	161,994	6,516	96.13%
2011	5,000	166,994	1,516	99.10%
2012	1,516	168,510	0	100.00%

In addition to focusing on vented and combusted emission reduction projects, we will also dedicate resources to improve the accuracy of our emissions inventory. This will give us greater confidence that our inventory-making process will meet the rigorous reporting requirements of the new LFE regulations.

Finally, as a way to offset its LFE obligations, SaskEnergy and TransGas will also explore the opportunity to get credit for the Demand Side Management programs that it delivers on behalf of their customers.

RECYCLING

We now have a good baseline of materials purchased, but we still do not have a complete baseline of materials sent for recycling. To improve our objective we will reference a reduction in materials purchased, which is less complicated and more effective in achieving two important principles or goals of the company: pollution prevention and resource conservation. These two goals will form the basis of our waste minimization and resource conservation objectives for the upcoming year.

COLLABORATIONS WITH ENVIRONMENTAL GROUPS

Although we are not formally measuring our collaboration with environmental organizations in 2006, we will refocus our efforts and determine how we can help these groups to leverage more funding from governments and other agencies. This measure will continue as an action item within our environmental stewardship mandate. Considering these environmental groups are challenged to do more with limited or shrinking resources, we will begin by encouraging all of the environmental organizations in Saskatchewan to work together. Later in 2006 we will establish an objective moving forward and will measure our success accordingly.

OBJECTIVE: Maintain leadership in corporate social responsibility and environmental stewardship.

STRONG RELATIONSHIPS WITH SASKATCHEWAN BUSINESS

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Percentage of goods and services sourced in Saskatchewan	73	75	70	81	75	75	75
Total contracts – percentage of Aboriginal labour content	19	13	13	12	12	13	13
Salvage program savings ($)	120,000	84,139	102,395	90,000	90,000	90,000	90,000
Purchasing savings ($)	667,000	856,493	1,326,000	350,000	350,000	350,000	350,000

Support for Saskatchewan's business sector has been a mainstay of our company for many years. Our targets and our measurement of this objective help us ensure that we are not only purchasing cost-efficient products and services right here at home, but also are helping support the local and provincial economy. Going forward, we have set a target of 75% of goods and services to be sourced in Saskatchewan, as this represents a realistic expectation of the percentage of purchases available in the Province.

Considering the growth of the Aboriginal business sector in Saskatchewan, SaskEnergy has taken a leadership role among Crown corporations in developing mutually beneficial relationships that fill a specific business need for our company, while helping us support the Aboriginal community. This measure has been part of our reporting for 10 years, and will remain a focus as the demographic shift continues in this province in the coming decade.

Salvage and Purchasing savings have also been a component of our reporting for eight years. Purchasing savings are generated through the formal bidding process, which provides SaskEnergy with a fair and effective tool to manage major procurement opportunities and maximize cost savings. Salvage savings allow us to maximize the value of goods we purchase.

SaskEnergy was unable to achieve our target for Saskatchewan content in 2005 because a significant number of specialized purchases were not available from Saskatchewan vendors.

In 2005, the Aboriginal labour content measure was also adjusted to realistically provide a true benchmark and target for these activities. Previously the target was 32%, but did not include a measurement of Aboriginal content in all contracts for the year. We strongly believe that our supplier development efforts provided additional opportunities for Saskatchewan and Aboriginal suppliers to do business with SaskEnergy.

Following a "Lean Thinking" approach, SaskEnergy's Salvage team, customers and senior management implemented an initiative to enhance our Salvage operations through process improvement and employee engagement. One of the

highlights of this process for the year involved our long standing partnership with the Saskatoon Tribal Council (STC). Through our relationship with the STC, we were able to recruit several Aboriginal people to entry-level positions in our Salvage Operations. Not only does this partnership provide a great career opportunity for these individuals, it also helps SaskEnergy develop a skilled trade workforce while achieving our diversity targets of 75% within Salvage Operations.

During 2006 Salvage Operations will implement more "Lean Thinking" ideas in our new pilot program of manufacturing pipe nipples. Local management will also work with Salvage Operations staff, customers, and senior management to provide more training opportunities through industry leading site visits.

SaskEnergy will also maintain or even slightly increase our strategic measures where possible. To achieve these results, SaskEnergy, together with our vendors, will need to expand the scope of products and services. This targeted, capacity-building approach provides the most promise in maintaining and increasing our Saskatchewan and Aboriginal content.

SaskEnergy has reported its procurement practices since 1994.

Only 8% of the top 300 companies in Canada surveyed publicly report on the use of local suppliers in procurement.

Conference Board of Canada, The National Corporate Social Responsibility Report - 2005

OBJECTIVE: Employees will be fully engaged in the success of the organization by working in a safe, healthy and rewarding environment.

REPRESENTATIVE WORKFORCE

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Percentage of diversity hires	47.1	45.6	45.6	35	35	35	35
Representative workforce (%)							
- Aboriginal	8.9	9.5	10.0	10.5	11.0	11.5	12.0
- Women	41.6	40.8	40.2	40.0	40.5	41.0	41.5
- People with Disabilities	3.5	3.3	3.6	5.0	5.5	6.0	6.5
- Visible Minorities	1.7	1.6	1.8	2.5	3.0	3.5	4.0

SaskEnergy's goal is to become an employer of choice in Saskatchewan. Our hiring practices and commitment to creating a diverse and skilled workforce helps us move towards this objective. Our yearly measurement and target setting provides us with the tools to evaluate our progress and help us develop strategies to create the representative workforce balance we seek.

Representative workforce measures provide quantitative data for the employment of the four equity groups recognized by the Saskatchewan Human Rights Commission as being either underemployed or minimally employed within the Province. Monthly, quarterly and annual percentages and evaluation provide a basis for establishing realistic targets.

A closer analysis of our progress in diversity hiring provides insight into where members of the diversity groups are located within SaskEnergy and TransGas (for example, in Executive, Professional, Management, Technical/Trades and Clerical/Administrative), and their employment status (permanent full-time, permanent part-time, temporary full time, or temporary part-time).

	ABORIGINAL	WOMEN	PEOPLE WITH DISABILITIES	VISIBLE MINORITIES
Executive	0	1	0	0
Professional	7	13	1	2
Management	11	70	5	8
Technical/Trades	44	26	14	3
Clerical/Administrative	41	285	15	5

Like many companies in Saskatchewan, if not in the rest of Canada, SaskEnergy is facing the prospects of an aging workforce and the challenges this reality brings to our employment strategies. Within the next five years, 42% of our workforce will be eligible for retirement. Understanding the complexities inherent within this scenario, SaskEnergy has been, and continues to be, committed to developing solutions to ensure we will build the workforce of tomorrow.

Crown Investments Corporation's Gradworks program helps new post-secondary graduates gain quality, relevant experience in a one-year internship within the Crown sector. In 2005 – the third year of this five-year program – SaskEnergy provided 13 interns with positions in Marketing and Sales, Sask 1st Call, Corporate Affairs, Financial Planning, Support Services, System Integrity, Human Resources, and Audit Services. Of these, four interns have successfully competed for permanent/temporary positions with SaskEnergy.

Typically, we experience a less than 2% workforce turnover rate each year. Considering this reality, we have faced some difficulty in reaching our hiring targets in the areas of people with disabilities and visible minorities. However, strides were made in the area of hiring of women – we achieved our target of 40%. Most notably, SaskEnergy's Aboriginal workforce reached a significant milestone, as 10% of our employees in 2005 were of Aboriginal ancestry.

As a complement to our Aboriginal hiring strategy, we also maximized our partnership with the Prince Albert Grand Council to support the Credenda Virtual High School – an e-learning program focused on math and sciences for youth in

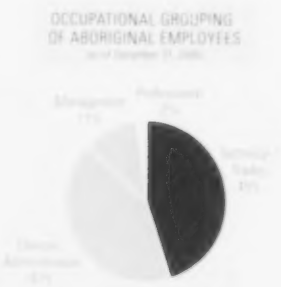
On average, only 4% of top 300 Canadian companies publicly report on programs that focus on employment development for Youth, People with Disabilities, Women, Visible Minorities, and First Nations people.

Conference Board of Canada, The National Corporate Social Responsibility Report, 2004

the northern areas of the Province. Williston Lake, Pelican Narrows, Deschambault, Stanley Mission and Little Red, Plans are to expand this program in 2006 with additional courses available to students in other northern areas.

SaskEnergy's ability to alter the composition of its future workforce is promising as more employees prepare for retirement, le—ing opportunities to hire externally. Specific programs are in place to attract younger and more diverse individuals into the organization, with the Gradworks program as one initiative that will expand throughout the company in 2006.

Saskatchewan's growing Aboriginal population points to a significant demographic shift that will change the make up of the Province's workforce in the coming years. SaskEnergy has developed and expanded a number of unique strategies to help engage Aboriginal people in to our workforce today, while preparing to welcome more of them to our company in the future. One key initiative for 2006 involves a partnership agreement with the Saskatchewan Indian Institute of Technologies to help identify and build future talent. This three week pilot program will provide candidates with pre-employment training with SaskEnergy and subsequent assessment. We anticipate that candidates who successfully complete this training will be pre-qualified to fill vacancies throughout the Province.



OBJECTIVE: Employees will be fully engaged in the success of the organization by working in a safe, healthy and rewarding environment.

INVESTING IN OUR PEOPLE

Measures	2003 Actual	2004 Actual	2005 Actual	2005 Target	2006 Target	2007 Target	2008 Target
Lost time frequency rate (incidents per 100 employees)	1.28	3.05	2.95	0	Top quartile	Top quartile	Top quartile
Preventable vehicle collision rate	2.73	2.14	2.71	0	Top quartile	Top quartile	Top quartile
Competitive compensation and benefits package - 50th percentile of prairie market	New in 2004	41	17% below market[2]	75	75/ median	75/ median	75/ median
Percentage of employees receiving enhanced training	80	99	100	80	Not used for 2006 onward		
Average amount invested per employee on training and development initiatives (dollars)	New in 2005		925	838	1,000	1,000	1,000
Percentage of objective setting and reviews completed by due date	New in 2004	91	92.7	100	Not used for 2006 onward		
Hewitt survey Best Canadian Employers (bi-annual)	New in 2004	85th	Survey not undertaken in 2005	Top 50	Not used for 2006 onward		

Established by the Canadian Gas Association and Canadian Energy Pipeline Association

On average. This percentage reflects base salary only and not total compensation, which would include salary and benefits

Strategic investments in our employees help benefit the workforce we have today, while positioning us to be an employer of choice for the workforce of tomorrow. A number of objectives are designed specifically to help us reach this goal: employee safety; competitive compensation and benefits; and training for career growth and professional development.

EMPLOYEE SAFETY

Considering SaskEnergy is a natural gas utility, safety is not only a priority in what we do every day, but essentially, it is what we do. Without the safety of our employees and our customers, we would not exist. Our commitment to reducing our lost time frequency rate and preventable vehicle collision rate is one way we can measure our health and safety performance to that of other Canadian natural gas utilities. These rates were established for us by the Canadian Gas Association and the Canadian Energy Pipeline Association.

Measurement is based on a yearly system of tracking the lost time injuries and preventable vehicle collisions and normalizing the numbers so that company comparisons are equated to workforce size or kilometres driven.

The lost time frequency rate is determined by identifying the total number of incidents that have occurred and multiplying the number by a given standard; that number is then divided by the total number of corporate hours worked for the period. To determine the preventable collision rate, the number of preventable collisions is multiplied by a given standard; that number is then divided by the total number of kilometres driven corporately for the period.

COMPENSATION AND BENEFITS

SaskEnergy has also designed a Total Rewards Strategy, with specific objectives and measures to ensure we can attract and retain top talent to our organization. Compensation and benefits are two critical, multi-faceted elements necessary for us to achieve our goal, and are measured against packages offered by similar companies in the Saskatchewan marketplace.

The job evaluation system currently used within our organization is strictly an internal process whereby determining the value of a position within the organization is measured relative to all other positions within the organization – there is no measurement for external comparators. As a result, to benchmark where we are relative to the marketplace, a determination has to be made about "where we are drawing our talent pool from, and which external market we can accurately compare to. We have concluded that the prairie market, which encompasses Alberta, Saskatchewan, and Manitoba, is best suited for our purposes.

EMPLOYEE SAFETY

In terms of safety, our efforts for the year were focused on education and prevention. Throughout the Province, employees participated in sessions to increase their awareness and understanding of hazards and near misses. SaskEnergy also began raising the accountability of employees and supervisors in reducing the lost time frequency rate and preventable vehicle collision rate whenever possible. Although our Lost Time Frequency Rate was 2.95, it was down from 2004, indicating that our employees are becoming more safety-conscious.

Our preventable vehicle collision rate was higher in 2005 than in 2004, as the company continues educating staff and building in accountability to our health and safety culture.

COMPENSATION AND BENEFITS

Our studies regarding our 2005 compensation and benefits package indicate that on average we were approximately 12% below the prairie market. It should be noted however, that these percentages are reflective of base salary only and not total compensation, which would include salary and benefits. In 2005, 40% of our employees' total compensation was attributed to benefits.

PROFESSIONAL DEVELOPMENT

Supporting the growth and development of our employees through learning has always been a priority at SaskEnergy. 2005 was a particularly strong performance year for this objective, as we continued with our safety, technology and technical training, while leveraging e-learning. Corporate-wide e-learning occurred in 2005 on the Code of Conduct Policy, Privacy, and over 140 other courses as part of our e-learning partnership with SaskTel. Developmental training for supervisory and listening skills were also provided, while SaskEnergy launched its sixth Leadership Development Program – an award-winning, comprehensive training opportunity to help build and nurture the future leaders in our company. Seventeen employees from around the company, including three individuals from key private sector supplier partnerships and key account customers will participate in this 18-month program.

SaskEnergy is focused on learning and leadership opportunities for staff across the Province. Year after year, the majority of our employees benefit from the programs we offer.

PERFORMANCE MANAGEMENT

Over the years our Human Resources area has raised the profile and functionality of the Performance Management System, an internal mechanism that creates the framework for management salary planning and merit increases, while helping employees develop individual goals that align with the company's overall objectives.

The first area of focus was the creation of an on line system that provided efficient, seamless workflow and essentially improved the entire planning and reporting process. Performance Management forms became easily accessible by the employee, the supervisor and the Vice President, while the system allowed for immediate access to current and historical information.

Secondly, a decision was made to provide management salary increases based solely on performance. This was done to highlight the importance of individual performance to the success of the organization.

In conjunction with these initiatives was a critical component: communication. Ongoing communication with all levels of the organization is essential to the overall success of the Performance Management System. Workshops were introduced in 2005 to train employees and ensure they understand the system.

All of these enhancements demonstrate the importance of a first rate Performance Management System which in turn supports SaskEnergy's corporate objectives.

Various studies show strong links between learning investments in your people and turnover, retention, employee engagement, and financial performance of the organization. Basically, if you invest in your people, your people will in turn invest back in your organization. Further research from the American Society for Training and Development confirms that strong learning practices translate directly into strong financial performances for organizations across all industries.

The Conference Board of Canada and the American Society for Training and Development both state that the single best measure an organization can use to track and benchmark people investments is the measure of "average training dollars invested per employee per year" which will become SaskEnergy's primary measure of learning investments in 2006 and beyond, replacing the previous measure of the percentage of people who received training in a year.

Additional safety training for supervisors, more effective management of hazards, and emphasis on having all employees adopt the view that "working safely is a condition of employment," are just some of the key activities for 2006 that will bring SaskEnergy closer to its safety goal.

Compensation surveys will allow us to continue to monitor our external comparators and recognize the contributions of all our employees. This data will be used to analyze internal salary levels in comparison to external markets and develop overall recommendations for all categories.

Educating employees and supervisors on the importance of the Performance Management System will also be a focus throughout 2006. As employees see the results and rewards of achieving corporate and personal objectives, the Performance Management System will be viewed as an integral component in achieving these results.

The Conference Board of Canada publication titled Training and Development Outlook 2005 shows Canadian organizations investing an average of $914 of training per employee per year. The American Society for Training and Development publication titled State of the Industry: 2005, shows American organizations investing an average of $1,000 per employee per year. Both figures validate the current SaskEnergy average of $925. In the future, SaskEnergy will continue to be committed to a culture of continuous learning, and will support this commitment with funding and programs that are consistent with those of a leading organization.

2020 MASTER LIST OF COMMUNITIES SUPPORTED BY SASKENERGY/SASKTEL

A Abbey, Aberdeen, Abernethy, Air Ronge, Alameda, Allan, Anahem, Arborfield, Archerwill, Arcola, Asquith, Assiniboia, Avonlea

B Balcarres, Battleford, Beauval, Bengough, Benson, Big River, Big River First Nation, Biggar, Birch Hills, Bjorkdale, Black Lake Denesuline Nation, Borden, Broadview, Bruno, B.Say.Tah, Burstall

C Calder, Carnduff Portage, Cando, Canora, Canwood, Carlyle, Carnduff, Carrot River, Central Butte, Chocolard, Churchbridge, Clavet, Cole Bay, Coleville, Cronach, Cudworth, Cupar, Cypress Hills

D Dalmeny, Davidson, D'Arcy, Dinsmore, Drake, Dundurn

E Earl Grey, Eastend, Eatonia, Edam, Edenwold, Elrose, Emerald Park, Esterhazy, Estevan, Eston, Eyebrow

F Fillmore, Flying Dust First Nation, Fosen Lake, Fond du Lac, Fort Qu'Appelle, Fort San, Frances, Frenchman Butte, Frobisher, Frontier

G Glaslyn, Glenavon, Glenside, Glentworth, Golden Prairie, Goodsoil, Gordon First Nation, Govan, Gravelbourg, Grayson, Grenfell, Gull Lake

H Hanley, Harris, Hodgeville, Holdfast, Hudson Bay, Hughenden, Humboldt

I Ile a la Crosse, Indian Head, Invermay, Island Lake, Iturup

K Kahkewistahaw First Nation, Kamsack, Kawacatoose First Nation, Kayville, Kelliher, Kelvington, Kenaston, Kennedy, Kennibert, Kincaid, Kindersley, Kinistino, Kipling, Kitscoty, Kyle

L La Ronge, Lafleche, Lake Lenore, Lang, Langenburg, Langham, Lanigan, Leader, Lebret, LeRoss, Liffey, Lestock, Lintlaw, Little Bear Lake, Little Pine First Nation, Lloydminster, Loon Lake, Loreburn, Lumsden, Luseland

M Macklin, Maidstone, Major, Mankota, Maple Creek, Marean Lake, Maringo, Marsden, Marshall, Martensville, Maryfield, Meadow Lake, Melfort, Melville, Meota, Midale, Milestone, Moosomin, Moose Jaw, Moosomin, Morse, Mossbank, Muenster

N Neilburg, Neudorf, Nipawin, Nokomis, Norquay, North Battleford

2006 UPDATED LIST OF COMMUNITIES SUPPORTED BY CHARITABLE DONATIONS

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SaskEnergy

1000-1777 Victoria Avenue, Regina, Saskatchewan S4P 4K5

www.saskenergy.com

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This is part of a two-book set consisting of the 2005 Annual Report and 2005 Corporate Social Responsibility Report